

National Bank
National Bank
of the Republic of Kazakhstan

Inflation Report
for the Third Quarter of 2014

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Basic Terms and Definitions

In Section 1. Inflationary Processes

Inflation in the Republic of Kazakhstan is calculated based on the consumer price index (CPI) that characterizes changes in the overall prices for goods and services purchased by the population for personal consumption in the cities of Astana and Almaty, in all regional centers and in a selected number of towns and district centers. The consumer basket for calculation of inflation reflects the structure of household expenditures and contains 508 goods and services which represent the largest portion in the consumption of population.

Core inflation – is the inflation that excludes short-term uneven price changes under the influence of certain factors of an administrative, circumstantial, and seasonal nature.

Since 2004 the Agency of Statistics of the Republic of Kazakhstan has been calculating core inflation using five different methods:

- core inflation-1: inflation that does not take into account the rise in prices for vegetables, fruit, gasoline, and coal;
- core inflation-2: inflation that does not take into account the rise in prices for vegetables, fruit, regulated services, and energy resources;
- core inflation-3: does not take into account the five largest and five smallest price hikes;
- core inflation-4: trimmed mean – in the calculation of CPI the components with the cumulative weight of less than 8% and more than 92% are excluded, i.e. the goods and services whose prices have changed (increased or decreased) most of all are not taken into account;
- core inflation-5: median CPI – in the calculation of CPI all price changes are intercepted except for the one which is in the middle of the series ranged by the change in prices, i.e. static median. Median CPI will be equal to the change in the price of the first component which cumulative weight is equal to or exceeds 50%.

Inflationary expectations among enterprises in the real sector are surveyed within framework of **Monitoring of Enterprises**, which has been performed by the National Bank since 2002. These surveys are characterized by qualitative estimates by the managers of the enterprises surveyed of the enterprises' production activity ("will rise," "will fall," "will remain unchanged"), including demand and prices for finished products and for the raw materials and supplies used in the previous quarter and the coming quarter.

The diffusion index is derived as the sum of "will rise" responses and half of the "remain unchanged" responses. This index is a generalized indicator that characterizes the trends in the change of a reviewed indicator. An index value above 50 means a positive change in the indicator, and the value below 50 means a negative change.

In Section 2. Inflation Factors

Proceeds to the budget include revenues (tax revenues, non-tax revenues, proceeds from disposal of capital assets), repayment of budget credits, and proceeds from disposal of the national financial assets.

Budget expenditures are the expenses (both current and capital expenditures), budget credits, and acquisition of financial assets.

In Section 3. Money Supply

Base Money (reserve money) includes cash issued by the National Bank excluding cash in till of the National Bank (currency outside the National Bank), transferable and other bank deposits, transferable deposits of non-bank financial institutions, and current accounts of public and private non-financial institutions in Tenge with the National Bank.

Narrow money refers to base money not including other bank deposits with the National Bank.

The M1 Monetary Aggregate is calculated as the sum of cash in circulation and transferable deposits held by non-bank legal entities and the public in Tenge.

The M2 Monetary Aggregate is equal to the M1 monetary aggregate plus other deposits in Tenge and transferable deposits of non-bank legal entities and the public in foreign currency.

Money supply (M3) is determined on the basis of consolidation of balance sheet accounts of the National Bank and banks. It consists of cash in circulation and transferable and other deposits of legal entities – residents and households – residents in the domestic and foreign currency.

Transferable deposits refer to all deposits which: 1) can be converted into cash at face value at any moment in time without any penalties and restrictions; 2) are freely transferable through a check, draft or endorsement orders; and 3) are widely used for making payments. Transferable deposits represent a part of the narrow money.

Other deposits primarily include savings and time deposits that only can be withdrawn on expiration of a certain period of time, or can have different restrictions which make them less convenient for use in the ordinary commercial transactions and, mainly, meet the requirements established for saving mechanisms. In addition, other deposits also include non-transferable deposits and deposits denominated in foreign currency.

The **KazPrime Index** represents the average weighted rate of interest on interbank deposits with the banks that are the parties to the Agreement on Formation of the KazPrime Index of Kazakhstan Interbank Deposits with Banks. Each quotation includes the rate for the attraction and placement of funds to the deposit of one of the parties to the Agreement, as well as the volumes of attracted and placed funds. The minimum quotation amount is KZT 150 mln. The maximum spread between quotations is one hundred basis points (1.00% per annum). The standard term for an interbank deposit was three months at the time when the project was launched.

In Section 4. Monetary Policy Instruments and Operations

The National Bank's **participation coefficient** in currency auctions at the Kazakhstan Stock Exchange (KASE) is calculated as the ratio of the National Bank's net participation (purchase minus sale of foreign currency) to the net volume of trading at the KASE.

The balance of the National Bank's operations in the money market is calculated as a sum of the change in the volume of short-term notes in circulation, deposit and correspondent account balances with the National Bank, and net operations on purchase and sale of government securities.

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Summary

As of end-September 2014, the annual inflation accounted for 7.4%. Inflationary processes surged due to increased prices for non-food products and foodstuffs associated with the seasonality factors as well as due to increased prices for imported goods in the domestic market. The rates of growth in tariffs for paid services continued to slow down being furthered by the moratorium for escalation of tariffs by natural monopolies which was in effect till May 1, 2014.

During July-September 2014, the inflation accounted for 1.0% (in the third quarter of 2013 – 0.6%), which is well below than in the second quarter of 2014 – 1.5%. In the structure of the consumer price index, prices for non-food products were growing at the highest rates. The main reason for the increase in prices for non-food products in general was, to a large extent, the increase in marginal retail prices for gasoline caused by decreased shipments from Russia and some shortage in the market of fuel and lubricants. Since the cost of fuel and lubricants has a direct and indirect impact on the inflationary growth, such situation remains to be an important factor in the pricing and represents a risk of increased inflationary processes in the future.

The growth in foodstuff prices in the domestic market is also associated with the embargo imposed by Russia in respect of certain foodstuffs imported from the Western countries.

Generally, the situation in the domestic foodstuff market remains stable. According to the information from the Ministry of Agriculture of the Republic of Kazakhstan, as of October 27, 2014, 16.2 million tons of grain were milled despite the fact that the gathering of a new crop was complicated by unfavorable weather conditions. In the Russian Federation, too, as of October 27, 2014, 107.3 million tons of grain were milled (in 2013 – 91.3 million tons); this may beat the 2008 record of the grain crop (108 million tons). Therefore, prices in the market of bread and bakery products and macaroni products are expected to remain stable in future.

In the third quarter of 2014, the inflation was building up against minimal impact of monetary factors. The money supply (M3) as the main indicator of the supply of money in the economy, during July-September 2014 increased by 0.4% and amounted to KZT 13 466.8 bln. On the whole, in annual terms the money supply corresponds to the needs of the economy, and its volume is sufficient to maintain the business activity.

Real GDP growth during 9 months of 2014, according to the preliminary data of the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, accounted for 4.1%.

The real sector of the economy demonstrates multi-directional trends. During January-September 2014 as compared to the same period of 2013, the industrial production decreased by 0.2% in terms of volume, among other things, because of the 0.3% decline in production in the manufacturing industry and the mining industry and quarry operations – by 0.2%. The volume of electricity supply, gas and vapor supply and air conditioning increased by 1.8%. During the same period, the growth in gross agricultural output accounted for 1.5%, and in the construction sector – for 4.3%.

As part of its monetary policy implementation, in the third quarter of 2014 the National Bank continued to conduct operations aimed to regulate the short-term Tenge liquidity in the money market. During July-September 2014, the official refinancing rate remained unchanged at 5.5% per annum.

The demand of banks for securities issued by the National Bank and deposits is recovering. So, the volume of short-term notes issued during July-September 2014 amounted to KZT 30.8 bln., exceeding the volume in the same period of 2013 by 2.2 times. The volume

of deposits attracted from banks during the same period increased by 5.1 times versus the third quarter of 2013 to KZT 1 929.4 bln.

At end-September 2014, total deposits with banks amounted to KZT 12 097.5 bln., having increased by 1.2% versus June 2014. During the same period, the growth in the volume of foreign currency deposits accounted for 3.3%.

In September 2014 as compared to June 2014, credits to the economy increased by 0.5% to KZT 12 228.3 bln. During the period, the growth in the volume of credits to the population accounted for 1.6%.

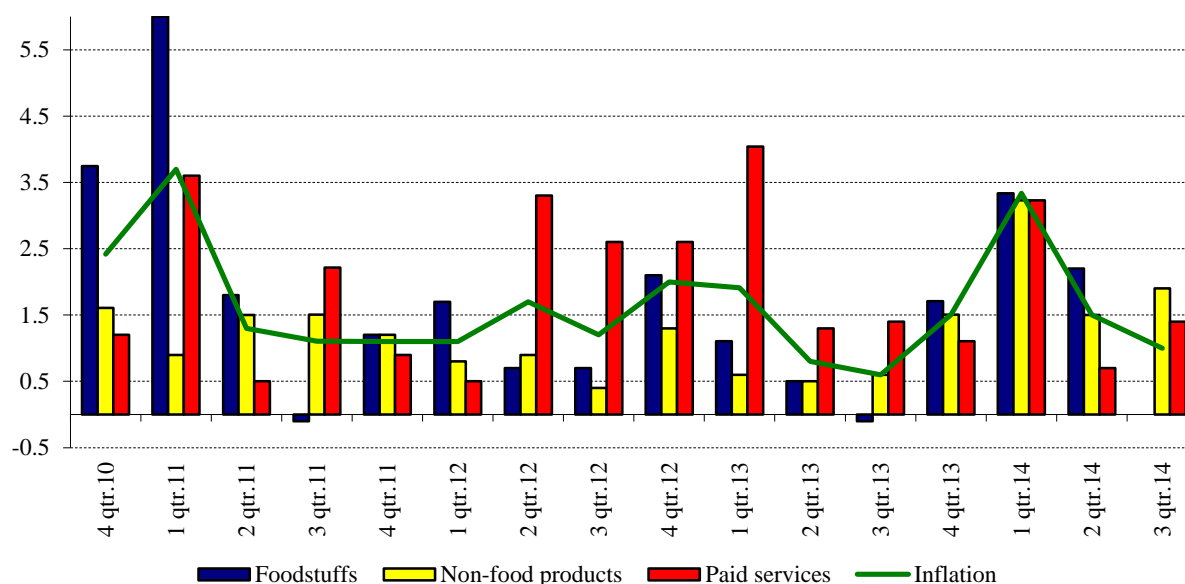
1. Inflationary Processes

1.1. Consumer Prices

In the third quarter of 2014, the quarterly inflation continued to slow down as compared to the prior periods. During July-September 2014, the inflation accounted for 1.0% (in the third quarter of 2013 – 0.6%), whereas in the second quarter of 2014 this indicator had been at 1.5%. The inflationary buildup in the third quarter of 2014 was to a larger extent impacted by the growth in prices for non-food products and services. Prices for non-food products increased by 1.9% (in the third quarter of 2013 – by 0.6%), and foodstuff prices remained unchanged (the decline of 0.1%). Paid services increased by 1.4% (by 1.4%) in terms of price (Figure 1).

Figure 1

**Dynamics of quarterly inflation and its components
(as % of the previous period)**



Source: Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan

In September 2014 as compared to June 2014, the highest increase in prices among foodstuffs occurred in the prices for rice – by 9.7%, eggs – by 8.3%, flour – by 5.8%, meat and meat products – by 3.3%, including poultry – by 18.7%, sugar – by 3.8%, tea – by 3.0%, fish and seafood – by 2.0%, and macaroni products – by 1.9%. During the reviewed period, fruits and vegetables cheapened – by 16.6%, including potatoes – by 42.7%, cabbage – by 30.9%, onions – by 20.7%, as well as buckwheat – by 0.6%.

During July-September 2014, in the group of non-food products, prices for upper garments increased by 1.8%, for footwear – by 1.3%, fabrics – by 0.8%, medications – by 1.9%, household utensils – by 1.1%, including tableware and cutlery – by 1.3%, detergents and cleaning products – by 1.4%. The price of gasoline increased by 8.7%, and the price of diesel fuel – by 0.4%.

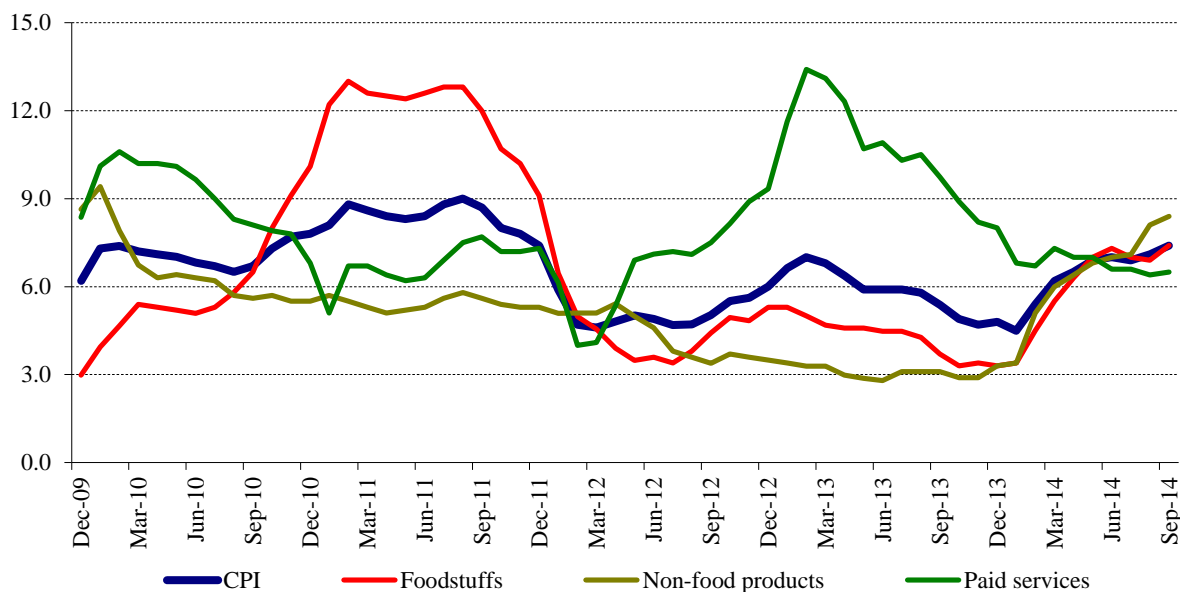
During the third quarter of 2014, in the structure of paid services utility payments increased by 0.7%. Tariffs for gas transported via distribution networks increased by 5.1%, hot water fees – by 1.3%, waste collection fees – by 1.0%, fees for liquefied gas – by 1.3%, and housing rental payments – by 1.3%. Also, the price of the following services increased:

out-patient services – by 3.1%, hospital services – by 2.9%, transport services – by 2.3% (mainly, because of increased prices for services of automobile transport – by 4.2%), education services – by 2.5%, and also services of restaurants and hotels – by 2.4%.

In September 2014, the annual inflation accounted for 7.4% (in December 2013 – 4.8%). In September 2014 versus September 2013, foodstuffs increased by 7.4% (by 3.3%) in terms of price, non-food products – by 8.4% (by 3.3%), and paid services – by 6.5% (by 8.0%) (Figure 2).

Figure 2

Dynamics of annual inflation and its components
(as % of the corresponding month of the previous year)



Source: Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan

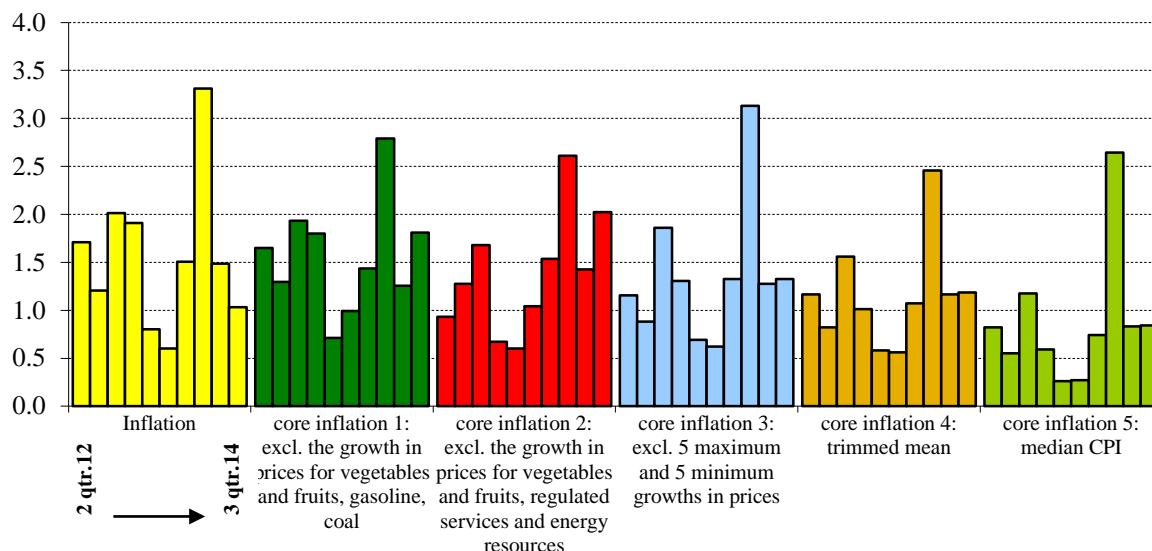
1.2. Core Inflation

In the third quarter of 2014, core inflation indicators exceeded the corresponding indicators of the previous quarter. Also, as compared to the corresponding period of 2013, higher growth rates on all core inflation indicators were noted.

In the third quarter of 2014, all core inflation indicators exceeded the level of the headline inflation, except core inflation-5 (Figure 3). This happened against a significant decline in prices for fruit and vegetable production in July-September 2014 (by 16.6%), which are excluded when calculating the core inflation.

Figure 3

Dynamics of quarterly inflation and core inflation (as % of the previous period)



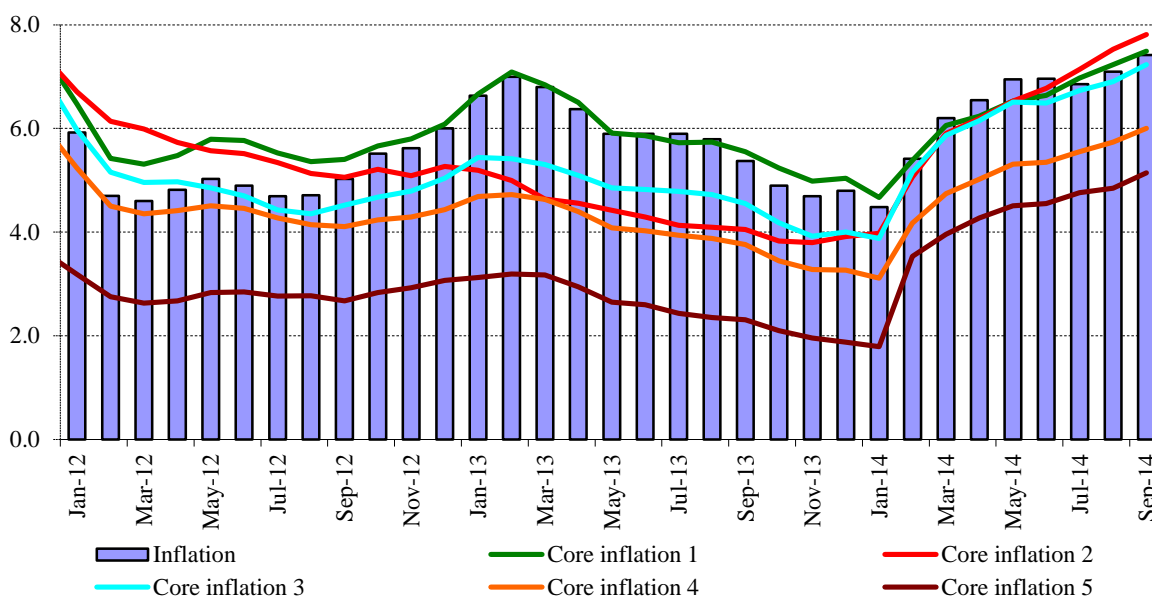
Source: Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan

In July-September 2014, annual core inflation indicators accelerated (Figure 4). Annualized core inflation-1 and core inflation-2 exceeded the level of the headline inflation as of the end of September 2014; to a large extent, this is related to moderate rates of growth in prices for fruits and vegetables in annual terms.

As of the end of September 2014, all annual core inflation indicators were at a higher level versus the indicators of December 2013 (Figure 4).

Figure 4

Dynamics of annual inflation and core inflation (as % of the corresponding month of the previous ye)



Source: Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan

1.3. Prices in the Real Sector of the Economy

1.3.1. Prices in the Industry

In the third quarter of 2014, the producer prices decreased by 2.1% (in the third quarter of 2013 – the growth of 7.4%). The cost of output decreased in terms of price by 2.2%; at the same time, in its composition the price of interim consumption products cheapened by 3.0%, the means of production increased by 0.8% in terms of price, and the price of consumer goods increased by 2.7%. The prices for production services increased by 0.9%.

In the third quarter of 2014, prices in the mining industry declined by 4.0%, which was caused by lower oil prices versus the same period of the previous year (in the third quarter of 2013 – the growth of 10.9%).

The price of energy resources, after its 2.2% growth in the previous quarter, in the third quarter of 2014 decreased by 3.6% (in the third quarter of 2013 – the growth of 11.2%). Within raw energy resources, the cost of oil extraction, because of its decline in August and September, declined by 3.9% (in the third quarter of 2013 – the growth of 10.6%), and the price of gas condensate decreased by 7.6% (in the third quarter of 2013 – the growth of 27.0%).

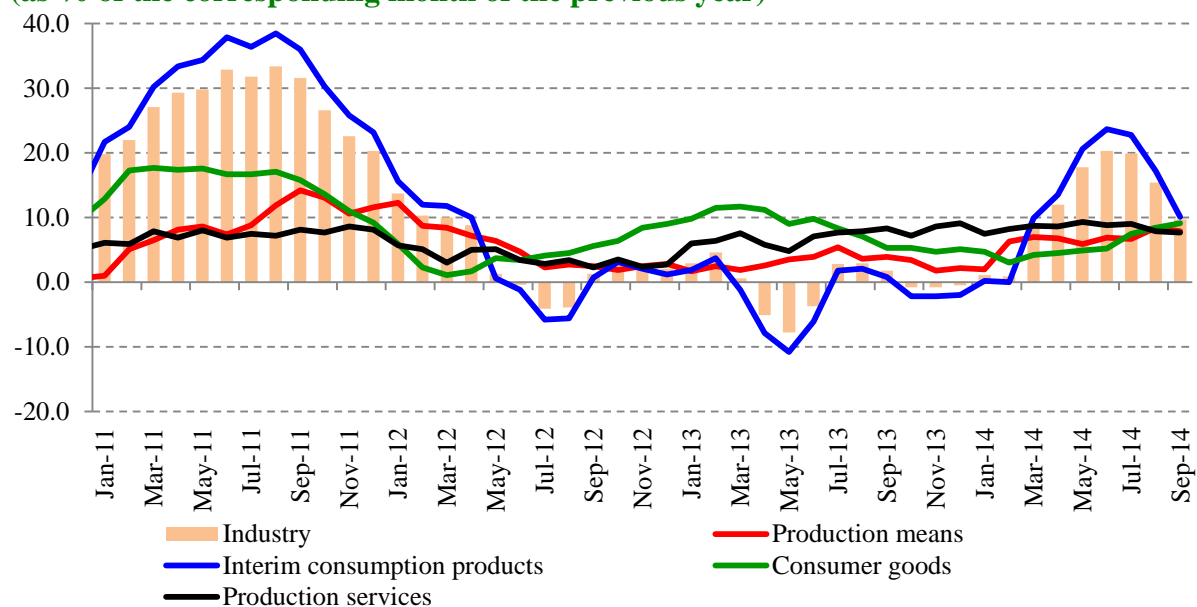
Prices in the manufacturing industry, after their 2.2% growth in the previous quarter, increased by 2.4% in the reporting quarter (in the third quarter of 2013 – the growth of 0.2%). Alongside with that, in the third quarter of 2014 prices in the metallurgical industry increased by 2.3%, the price of oil refinery products increased by 3.9%, and the production of foodstuffs increased by 3.9% in terms of price.

In the third quarter of 2014, prices in the sector of electricity supply, gas and vapor supply and air conditioning increased by 0.3% (in the third quarter of 2013 – the growth of 0.5%).

In September 2014, the year-to-year growth in prices in the industrial production (September 2013 to September 2012) accounted for 9.7% (in September 2013, the annual price growth accounted for 1.8%) (Figure 5).

Figure 5

Dynamics of the producer price index (as % of the corresponding month of the previous year)



Source: Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan

The cost of output increased by 9.9% in annual terms, interim consumption products increased by 10.1% in terms of price, the price of consumer goods increased by 9.1%, and production means increased in price by 7.9%. Production services increased by 7.7% in terms of price.

1.3.2. Prices in Agriculture

In the third quarter of 2014, prices for agricultural production realized across all channels increased by 3.6% (in the third quarter of 2013 – the decline of 3.5%). The dynamics of prices in agriculture was impacted by the growth in prices in the plant production and in the livestock sector.

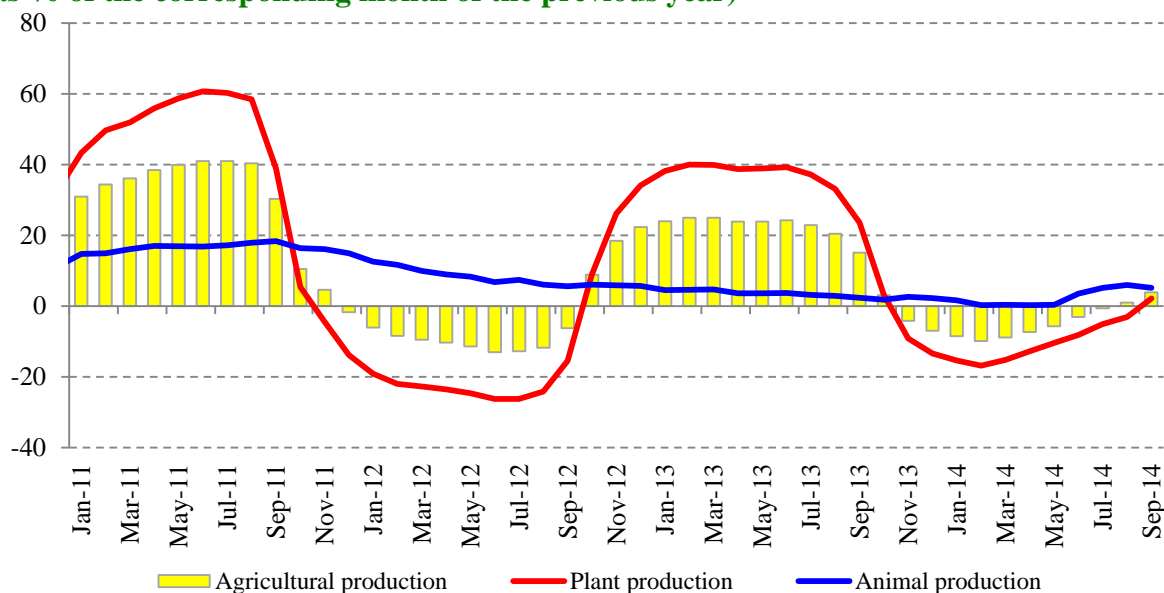
As compared to the 6.3% increase in prices in the previous quarter, during July-September 2014 the plant production increased by 4.8% in term of price (in the third quarter of 2013 – the decline of 5.9%). Within the plant production, prices for grain cultures increased by 6.0%, vegetables cheapened by 3.4%, and potatoes cheapened by 7.2% in terms of price.

The animal production, after the 1.7% decline in prices in the second quarter of 2014, in the third quarter of 2014 increased by 1.8% in terms of price (in the third quarter of 2013 – the growth of 0.2%). During July-September 2014, prices for flesh meat and poultry increased by 2.8%, the price of unpasteurized milk increased by 0.7%, and eggs decreased by 1.9% in terms of price.

As of the end of September 2014, prices for agricultural products increased by 3.9% in annual terms. The price of plant production increased by 2.2%, and animal production increased by 5.2% in terms of price (Figure 6).

Figure 6

Dynamics of the agricultural price index (as % of the corresponding month of the previous year)



Source: Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan

1.3.3. Monitoring of Enterprises

In the third quarter of 2014, the demand for final products of enterprises in the real sector of the economy as a whole remained in the growth zone, while slightly slowing the growth rates; this is evidenced by the diffusion index of the change in the demand, which had fallen to 51.5 (from 51.8 in the second quarter of 2014). The indicator had fallen due to the fact that the share of enterprises with increased demand for their products decreased (to 21.5% from 23.2% in the second quarter of 2014); however, the number of enterprises which noted the decreased demand for their products slightly went down (to 18.6% from 19.7% in the second quarter of 2014).

The largest slowdown in the demand was observed in such sectors as “information and communications” and the “manufacturing industry”: the diffusion index in these sectors had fallen, respectively, to 52.4 and 52.2 from 57.1 and 54.4 in the second quarter of 2014. The worst situation is observed in the sectors of “wholesale and retail trade: repair of cars and motorcycles” and “accommodation and catering services”, where the demand is in the downward zone: in the third quarter of 2014, the diffusion index in these sectors was 45.2 and 46.8, respectively. Such sectors as the “mining industry”, “transport and warehousing” and “electricity supply, gas and vapor supply and air conditioning” had overcome the decrease in the demand that was observed in the second quarter: the diffusion index had risen to 57.1; 53 and 50 from 49.7; 48.1 and 41.6, respectively, in the second quarter of 2014.

In the construction sector, in “agriculture, forestry and fishery” the demand continued to grow: the diffusion index made up 53 and 61.3, respectively.

According to expectations of enterprises, in the fourth quarter of 2014 as compared to the third quarter of 2014, the demand for final products in the real sector as a whole will slightly increase but will remain in the weak growth zone: the diffusion index made up 53.1. Alongside with that, a notable increase in the demand is anticipated in the following sectors: “electricity supply, gas and vapor supply ...” (to 68.9 c 50 in the third quarter); “agriculture, forestry and fishery” (to 68.4 from 61.3 in the third quarter); “wholesale and retail trade...” (to 51.8 from 46.8 in the third quarter); and “accommodation and catering services” (to 50.8 from 45.2 in the third quarter). A notable decrease in the demand is anticipated in the sectors of “water supply; sewage system, control over waste collection and distribution” and the “mining industry” (the diffusion index had fallen to 53.4 and 52.5 from 63.8 and 57.1 in the third quarter of 2014). Some deceleration in the demand is anticipated in the following sectors: the “manufacturing industry” and construction (the diffusion index had fallen to 50.9 and 50.9 from 52.2 and 53, respectively, in the third quarter).

In the third quarter of 2014, the growth in prices for final products of enterprises in the real sector as a whole decreased: the diffusion index of the change in prices for final products made up 59.6 (in the second quarter of 2014 – 62.9). The largest slowdown in the price growth occurred in the following sectors: “wholesale and retail trade...” (the diffusion index had fallen down to 63.4 from 69 in the second quarter of 2014); the “manufacturing industry” (the diffusion index had fallen to 58.8 from 62.9 in the second quarter of 2014) and the construction (the diffusion index had fallen to 62.7 from 66.6 in the second quarter of 2014). A notable decline in prices occurred in the “mining industry” (the diffusion index had dropped to 49.7 from 58.8 in the second quarter of 2014).

In the third quarter of 2014, prices for final products of enterprises manufacturing consumer goods and providing services (hereinafter – prices for consumer goods and services) also slowed their growth: the diffusion index made up 60.3 (in the second quarter of 2014 it was 61.8).

In the fourth quarter of 2014 versus the third quarter of 2014, the growth in prices for final products in the real sector of the economy as a whole is expected to slow down a little bit (the diffusion index made up 57.8). The largest slowdown in the price growth is expected

in the following sectors: “electricity supply, gas and vapor supply...” (the diffusion index made up 55.5); “wholesale and retail trade...” (59.8); “construction” (60.2); “water supply; sewage system, control over waste collection and distribution” (53.4); and the “manufacturing industry” (56.7). The price growth is anticipated in the “mining industry”: the diffusion index had risen to 52.8 from 49.7 in the third quarter of 2014).

In the fourth quarter of 2014, prices for consumer products and services, according to expectations of enterprises, will continue to grow moderately, with some slowdown in the growth rates: the diffusion index of the change in prices made up 58.1 (60.3 in the third quarter of 2014).

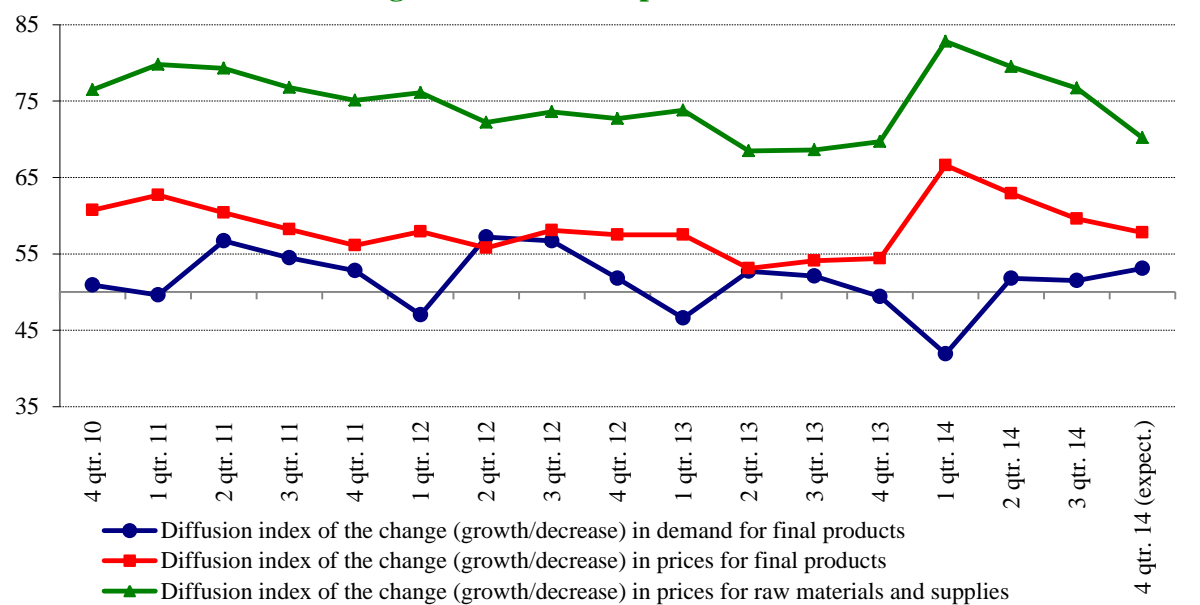
In the third quarter of 2014, prices for raw materials and supplies slowed their growth: the diffusion index of the change in prices made up 76.7 (in the second quarter of 2014 – 79.5). A significant slowdown in the price growth rates was observed in the following sectors: “information and communications” (the diffusion index had fallen to 70.2 from 76.8 in the second quarter of 2014); the “manufacturing industry” (to 75.5 from 79.8 in the second quarter of 2014), “wholesale and retail trade...” (to 73.7 c 77.6 in the second quarter of 2014); and “agriculture, forestry and fishery” (to 83.2 from 86.1 in the second quarter of 2014).

According to expectations of enterprises, in the fourth quarter of 2014, prices for raw materials and supplies will continue to grow, however, the growth rates will slow down significantly (the diffusion index made up 70.2).

Thus, judging from the dynamics of relevant diffusion indices, according to estimates of enterprises, the growth in the demand for final products and the slowdown in the growth rates of prices for final products and raw materials and supplies are expected in the fourth quarter of 2014 (Figure 7).

Figure 7

Diffusion indices of the change in demand and prices



Source: National Bank of the Republic of Kazakhstan

2. Inflation Factors

2.1. Aggregate Demand

In the second quarter of 2014, GDP based on the final consumption method, as compared to the corresponding period of 2013, increased in real terms, according to estimate, by 3.6% (according to estimate, in the second quarter of 2013 the growth accounted for 5.0%, and in the first quarter of 2014 the growth accounted for 4.0%).

The GDP growth in the second quarter of 2014 was impacted by the growth in spending on final consumption caused by the increased government spending on current consumption, with the volumes of gross formation retained at the level of the previous year and with decreased net exports.

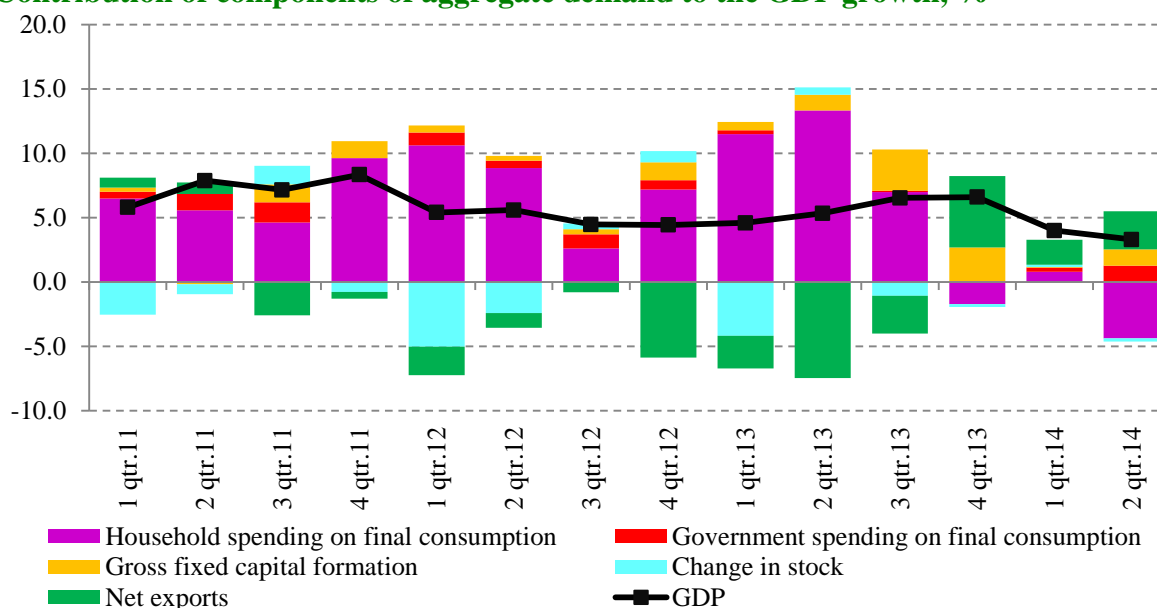
In general, according to estimate, as compared to the corresponding quarter of 2013, spending on final consumption decreased in the second quarter of 2014 by 1.0% (first quarter 2013 – the growth of 1.7%), gross formation increased by 4.7% (the decrease of 1.4%), and net exports increased by 68.9% (the growth of 23.6%).

As a result, household spending on final consumption and government spending on final consumption made, respectively, a negative and a positive contribution to the formation of the GDP growth of (-)4.4% and (+)1.3%; and gross formation increased GDP by (+)1.0%.

Alongside with that, within gross formation fixed capital formation accounted for (+)1.3%, and change in stock accounted for (-)0.2%. In its turn, net exports made a positive impact on the GDP growth of (+)3.0% (Figure 8).

Figure 8

Contribution of components of aggregate demand to the GDP growth, %



Source: Information of the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

2.1.1. Individual Consumption and Investment Demand

In the second quarter of 2014, household spending on final consumption decreased versus the corresponding period of 2013 by 6.5% (in the first quarter of 2014 – the growth of 0.8%).

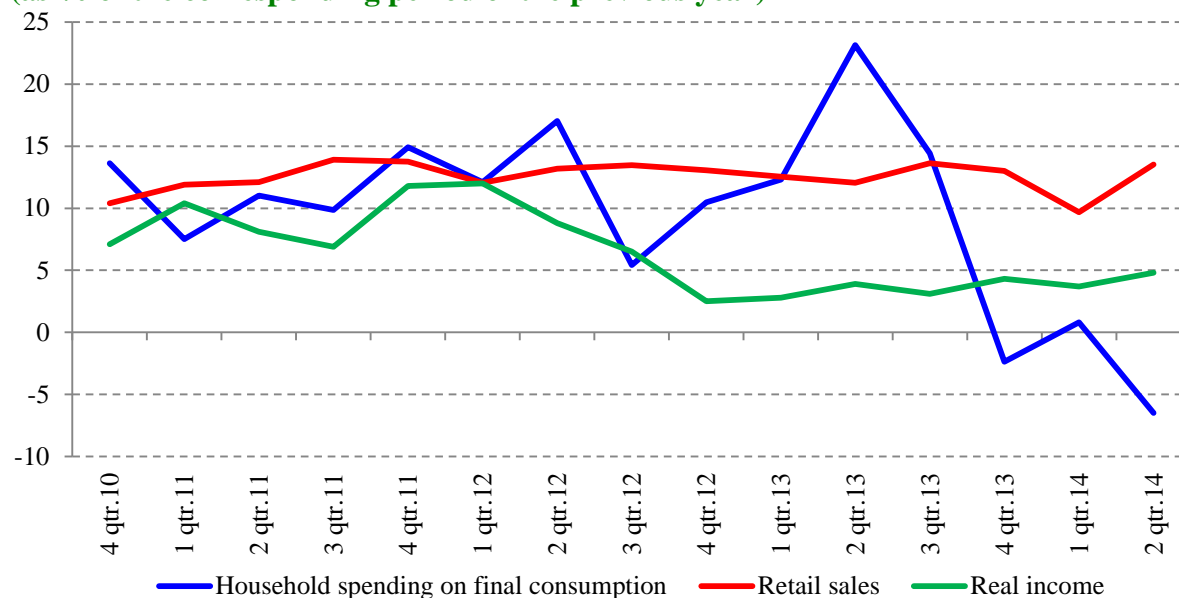
In the second quarter of 2014, the growth rate of per capita income in nominal terms accelerated to 11.9% (in the first quarter of 2014 – the growth of 9.3%), and in real terms it

accelerated to 4.8% (the growth of 3.7%). The accelerating growth in the household income had a positive impact on retail sales, with their growth accelerating to 13.5% versus the first quarter of 2014 (in the first quarter of 2014 – the growth of 9.7%).

Acceleration in the growth rates of retail sales did not have a considerable impact on one of the key GDP components by the final consumption method, namely the growth in household spending on final consumption which decreased by 6.5%, whereas a quarter before this indicator made up 0.8% (Figure 9).

Figure 9

Dynamics of personal spending and income
(as % of the corresponding period of the previous year)



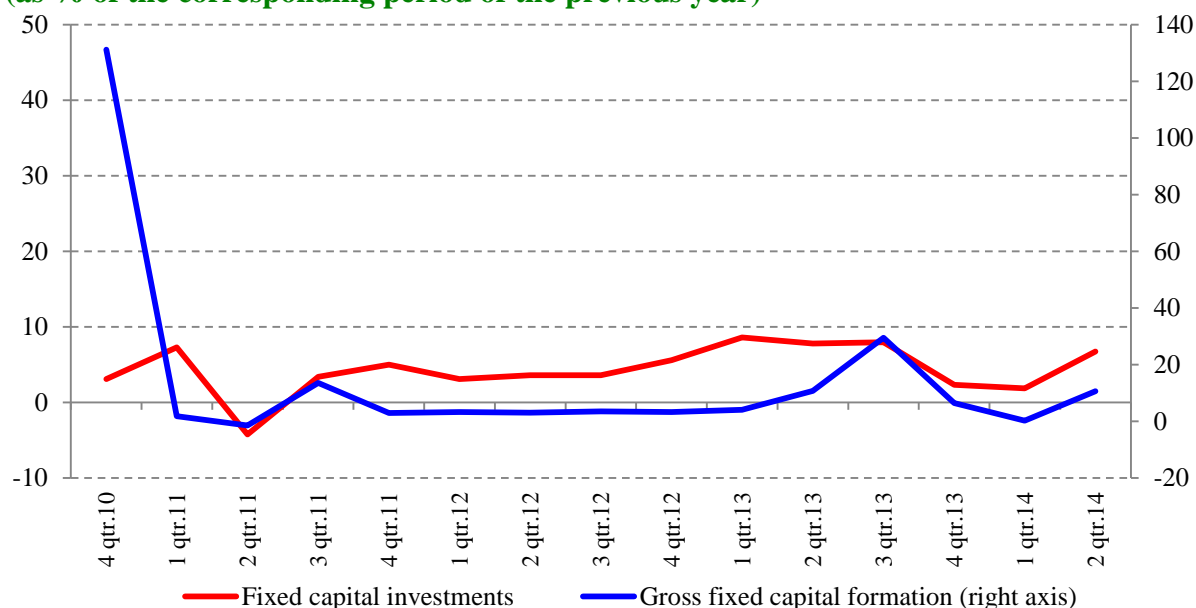
Source: Information of the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

The rates of growth in household income and retail sales accelerated; however, household spending on final consumption decreased, which was partially determined by decreased implementation of certain types of services.

The increased investment activity of enterprises had an impact on acceleration of fixed capital investments in the second quarter of 2014 to 6.8% (in the first quarter of 2014 the growth accounted for 1.9%). Alongside with that, gross fixed capital formation accelerated, and the rate of its growth versus the previous quarter increased to 10.6% (the growth of 0.3%) (Figure 10).

Figure 10

**Dynamics of spending on investments in fixed capital
(as % of the corresponding period of the previous year)**



Source: Information of the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

2.1.2. Government Consumption

In the second quarter of 2014 as compared to the corresponding period of 2013, government spending on final consumption increased by 17.4% (in the first quarter of 2014 – the growth of 4.5%).

During the second quarter of 2014 as a whole, the state budget spending was financed in the amount of KZT 2278.0 bln. or 27.9% of GDP (the increase of 26.6% as compared to the second quarter of 2013).

Current state budget expenditures totaled KZT 3.0 trln., exceeding those of the second quarter of 2013 by 16.8%. Within the current expenditures, the following items demonstrated significant increase as compared to the corresponding quarter of 2013: expenditures related to current transfers to legal entities (by 1.4 times); purchases of services and works (by 29.6%); current transfers to individuals (by 14.7%); interest payments on the domestic loans (by 14.1%); stock acquisition (by 13.3%); other current expenditures (by 6.4%); contributions by employers (by 6.3%) and salaries and wages (by 5.5%). At the same time, expenditures related to interest payments on foreign loans decreased (by 2.2%).

In the second quarter of 2014, capital expenditures in the state budget increased by 21.1% as compared to the same period of 2013, mainly because of increased capital expenditures for development, major overhaul of property, plant and equipment, acquisition of property, plant and equipment, intangible and biological assets.

In the second quarter of 2014 as compared to the second quarter of 2013, budget credits increased by 10.5%, and expenditures related to acquisition of financial assets also increased by 3.0 times.

During the second quarter of 2014, state budget revenues amounted to KZT 2021.0 bln. or 24.8% of GDP, exceeding those of the second quarter of 2013 by 22.2%. In the structure of state budget revenues, two items are still prevailing: tax revenues – 60.2% (the second quarter of 2013 – 70.5%), and official transfers – 36.4% (26.5%). A large share of

official transfers was secured by the receipt of the guaranteed transfer from the National Fund of the Republic of Kazakhstan to the republican budget in the amount of KZT 734.5 bln.

In the second quarter of 2014 as a whole, tax revenues increased by 4.9% as compared to the second quarter of 2013. The growth was secured by increased receipts on excises, corporate income tax, personal income tax, and social tax whereas revenues from the value-added tax decreased by 36.9%.

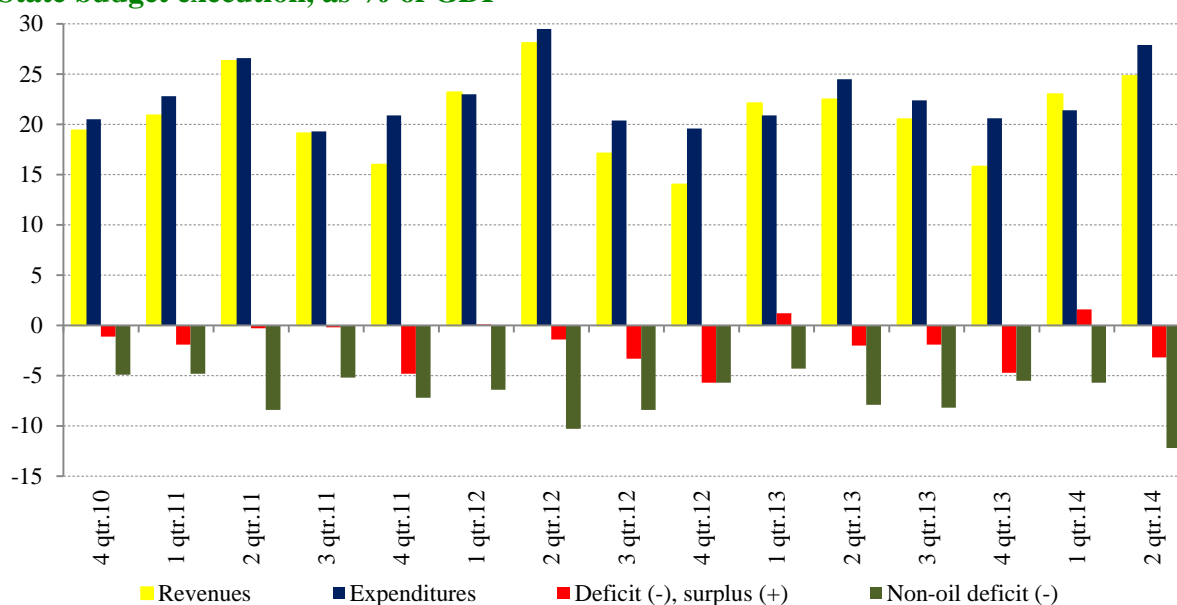
In the second quarter of 2014 as compared to the second quarter of 2013, non-tax revenues increased by 34.9%, mainly due to increased receipts from realization of goods (works, services) by state-owned entities which are funded from the state budget, proceeds from public procurements arranged by state-owned entities which are funded from the state budget, and from penalties, fines, sanctions, and charges imposed by state-owned entities which are funded from the state budget.

In the second quarter of 2014 as compared to the second quarter of 2013, revenues from transfers increased by 68.9%, revenues from the sale of fixed capital also increased by 42.9%.

Since expenditures were in excess of revenues in the second quarter of 2014, the state budget showed up a deficit of KZT 257.0 bln. (3.2% of GDP), in the second quarter of 2013 the deficit amounted to KZT 145.2 bln. (2.0% of GDP) (Figure 11). It should be noted that without the guaranteed transfer of KZT 734.5 bln. to the republican budget from the National Fund, the second quarter of 2014 would have ended with the non-oil deficit of KZT 991.5 bln.

Figure 11

State budget execution, as % of GDP



Source: Ministry of Finance of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

During the second quarter of 2014, the Ministry of Finance of the Republic of Kazakhstan borrowed KZT 259.0 bln. by issuing government issue-grade securities. During the same period, debentures were also extinguished on securities issued earlier in the amount of KZT 67.7 bln. As a result, account balances of the Government of the Republic of Kazakhstan with the National Bank decreased by KZT 65.7 bln.

As of July 1, 2014, the government domestic debt amounted to KZT 3895.1 bln. (10.6% of GDP), exceeding the same indicator as of July 1, 2013 by 26.2% (9.7% of GDP). The growth was secured by the issue of government long-term savings treasury obligations

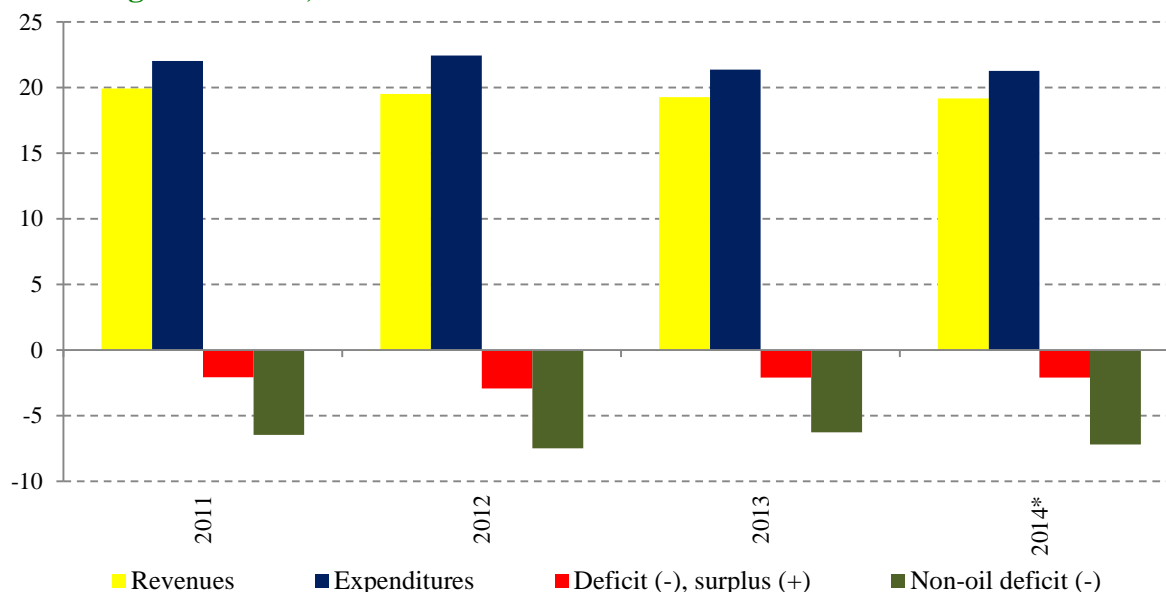
(MEUZHKA), government short-term treasury obligations (MEKKAM), government long-term treasury obligations (MEUKAM) and government medium-term treasury obligations (MEOKAM).

As of July 1, 2014, the government external debt amounted to KZT 911.9 bln. (2.5% of GDP), having increased by 27.6% versus its volume at July 1, 2013 (2.2% of GDP).

The downward trend in the state budget deficit is observed. In the second quarter of 2014, the deficit accounted for (-)2.1% of GDP (in 2013 – the deficit of (-)2.0% of GDP) in annual terms (Figure 12).

Figure 12

State budget execution, as % of GDP in annual terms



Source: Ministry of Finance of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

* – for the period from the third quarter of 2013 through the second quarter of 2014

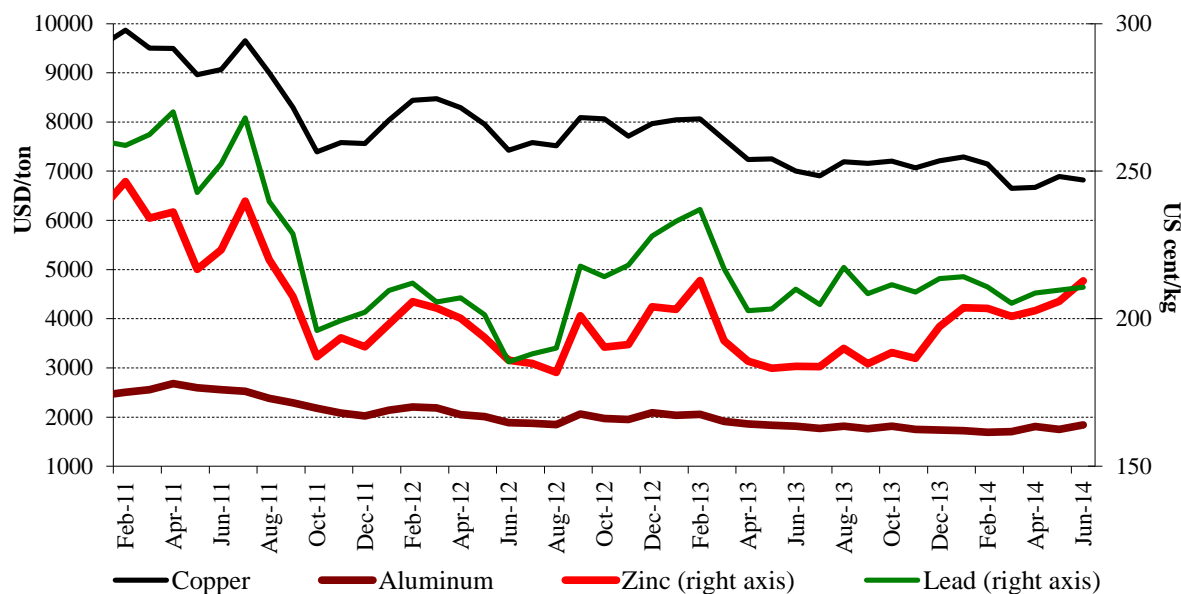
2.1.3. External Sector

– World Prices

In the second quarter of 2014, the situation in the global commodity markets was characterized by multi-directional trends.

In the second quarter of 2014, prices for copper decreased by 3.3% and had been at USD 6795.3 per ton on average during the period. During the second quarter of 2014, prices for aluminum increased by 5.3% and amounted to USD 1800.3 per ton. In April-June 2014, world prices for lead decreased by 0.2%, amounting to 209.7 US cents per kilogram on average during the period. Prices for zinc increased by 2.2%, with the average price during the period being 207.1 US cents per kilogram (Figure 13).

Figure 13

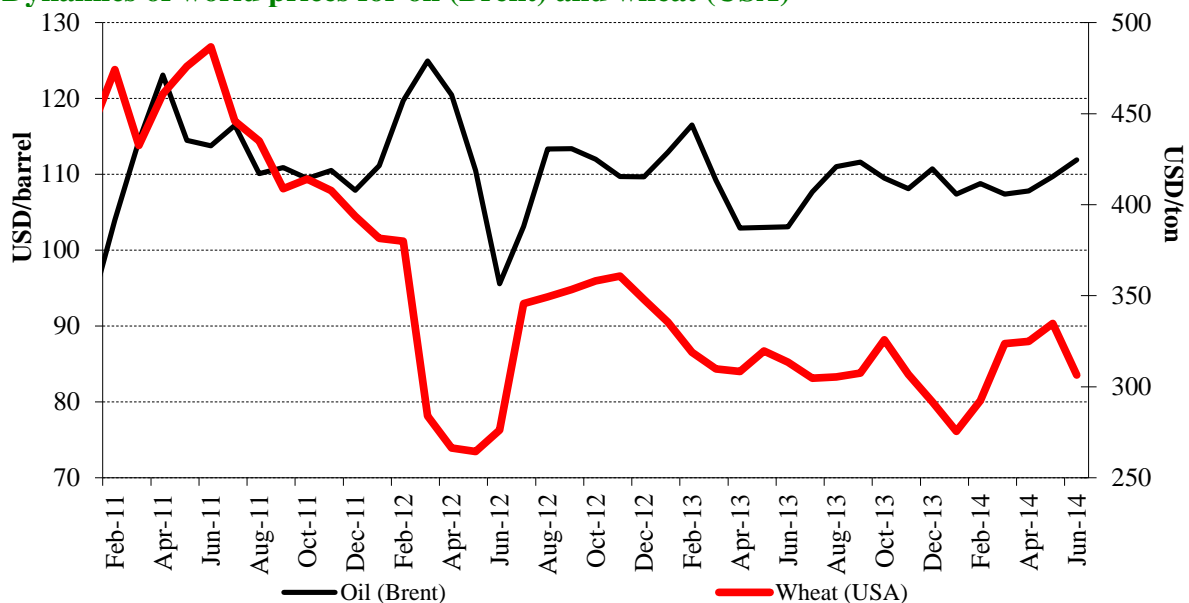
Dynamics of world prices for metals

Source: World Bank

In the second quarter of 2014, world oil price (Brent) increased by 1.8% and had been at USD 109.8 per barrel on average during the period (Figure 14).

World wheat prices, after their growth during 2014, somewhat declined in June. During the second quarter of 2014 as a whole, the world wheat price (USA) increased by 8.4% versus the previous period, being at USD 322.0 per ton on average (Figure 14).

Figure 14

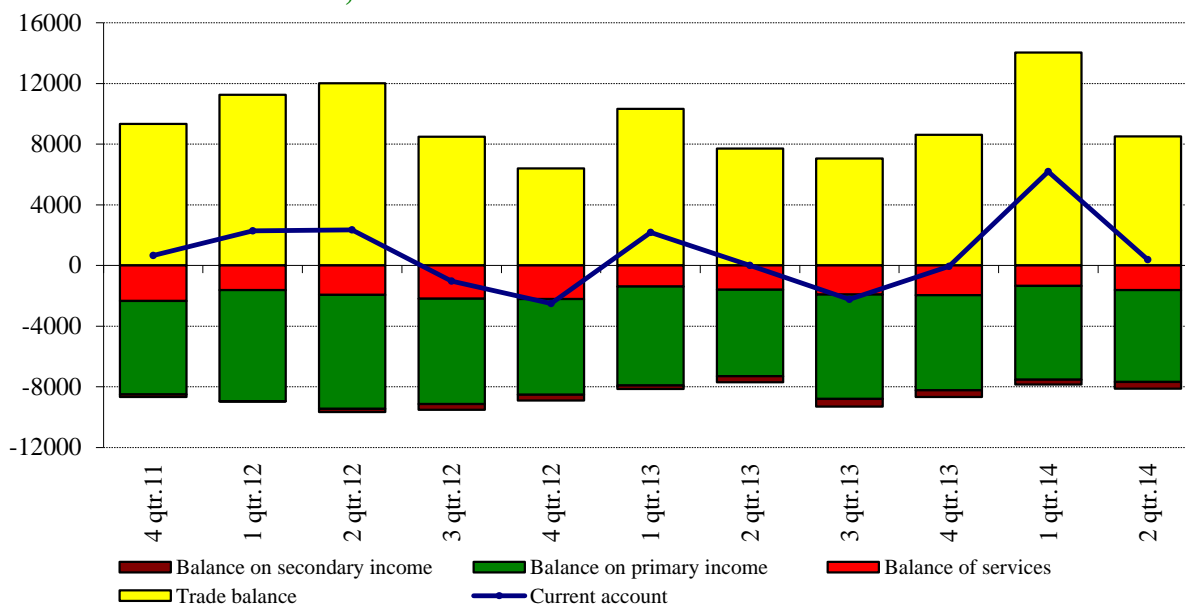
Dynamics of world prices for oil (Brent) and wheat (USA)

Source: World Bank

– Balance of Payments

At the end of the second quarter of 2014, the current account balance was in surplus of USD 391.0 mln. or 0.9% of GDP for the corresponding period (Figure 15).

Figure 15

Current account balance, USD mln.

Source: National Bank of the Republic of Kazakhstan

In the second quarter of 2014, proceeds from the exports of goods decreased versus the same indicator for the second quarter of 2013 by 12.8% to USD 19.4 bln.; and expenditures on commodity imports decreased by 18.9% as compared to the second quarter of 2013, amounting to USD 10.9 bln. The trade surplus decreased by 3.3% and amounted to

USD 8.5 bln. In the second quarter of 2014, the deficit in the balance of services increased as compared to the second quarter of 2013 by 0.9% to USD 1.6 bln., and the deficit in the balance on primary income (salaries and wages, investment return and other primary income) increased by 6.3% and amounted to USD 6.0 bln. Net payouts to non-residents on secondary income operations (current transfers) amounted to USD 446.5 mln.

The balance of the financial account (excluding reserve assets) in the second quarter of 2014 was negative and amounted to USD 1.4 bln. (a negative balance of USD 1.9 bln. in the second quarter of 2013). A net acquisition (growth) of foreign assets of residents (less reserve assets) amounted to USD 3.9 bln. (USD 5.4 bln. in the corresponding period of 2013). Net incurred liabilities (growth) amounted to USD 5.3 bln. (USD 7.3 bln. in the second quarter of 2013).

As a result, at the end of the second quarter of 2014, the balance of payments was in surplus of USD 472.7 mln. (the second quarter of 2013 – a surplus of USD 574.1 mln.).

– Terms of Trade and the Real Effective Exchange Rate

In the second quarter of 2014, the aggregate terms of trade index was by 6% lower than the corresponding indicator for the first quarter of 2013. Alongside with that, the terms of trade index with the Euro zone countries decreased by 3%, and with Russia – increased by 4% (Table 1).

Table 1

Change in price indices and terms of trade (as % of the corresponding period of the previous year)

	2 qtr.13	3 qtr.13	4 qtr.13	1 qtr.14	2 qtr.14
Export prices	-7	-6	-3	-5	-5
Import prices	-12	-4	-10	7	1
Terms of trade	5	-2	8	-11	-6
including:					
Euro zone countries					
Export prices	-4	-2	1	-1	-6
Import prices	0	-1	-6	70	-4
Terms of trade	-4	-2	8	-42	-3
Russia					
Export prices	-10	-11	-10	-13	-7
Import prices	-4	-5	-9	-4	-11
Terms of trade	-6	-7	-1	-9	4

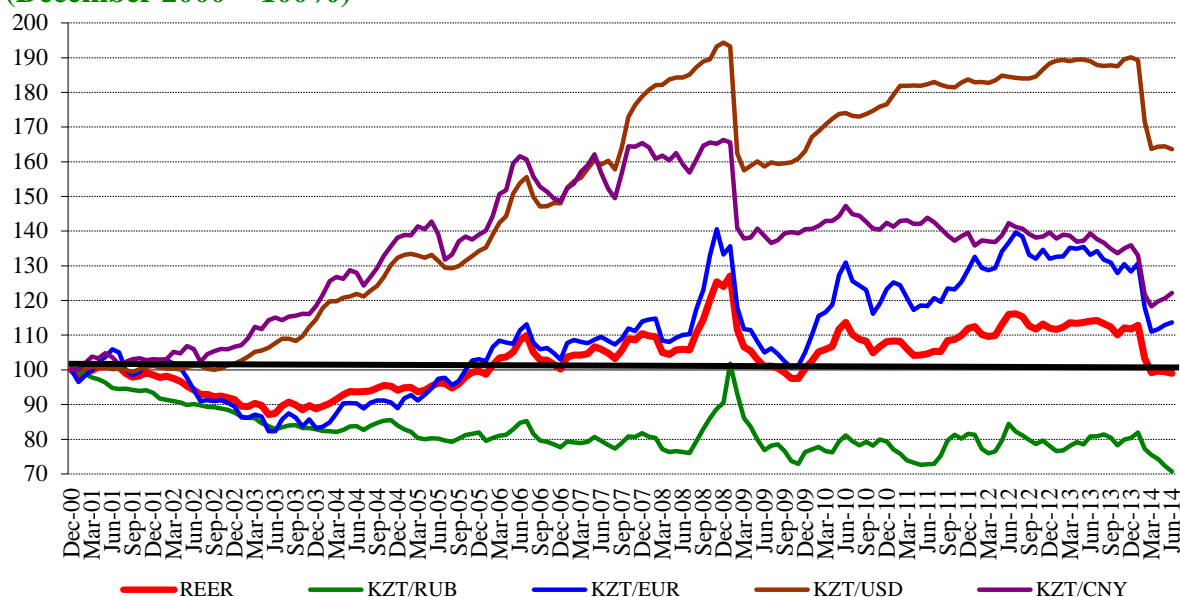
Source: National Bank of the Republic of Kazakhstan

At the end of the second quarter of 2014, the index of the real effective exchange rate of the Tenge depreciated by 5.5% versus the previous period. The Tenge has depreciated versus the CIS currencies basket by 4.1% and versus the basket of other currencies – by 5.7%.

During the second quarter of 2014 against the previous period, the Tenge depreciated in real terms versus the US Dollar by 6.1%, versus the Euro – by 5.9%, and versus the Russian ruble – by 7.4% (Figure 16).

Figure 16

Indices of real exchange rates of the Tenge (December 2000 = 100%)



Source: National Bank of the Republic of Kazakhstan

– Nominal Exchange Rate of the Tenge

The average weighted exchange rate of the Tenge in the third quarter of 2014 was KZT 182.50 per 1 US Dollar. The stock exchange rate at end-period was KZT 181.90 per 1 US Dollar. Since the beginning of the year, the Tenge had depreciated versus the US Dollar by 18.1% (Figure 17).

Figure 17

Dynamics of the nominal exchange rate of the Tenge against the U.S. Dollar



Source: National Bank of the Republic of Kazakhstan

In September 2014, the National Bank decided to expand the exchange rate band of the Tenge versus the US Dollar from the existing rate of KZT 185 +/- 3 to KZT 185 +/- 15.

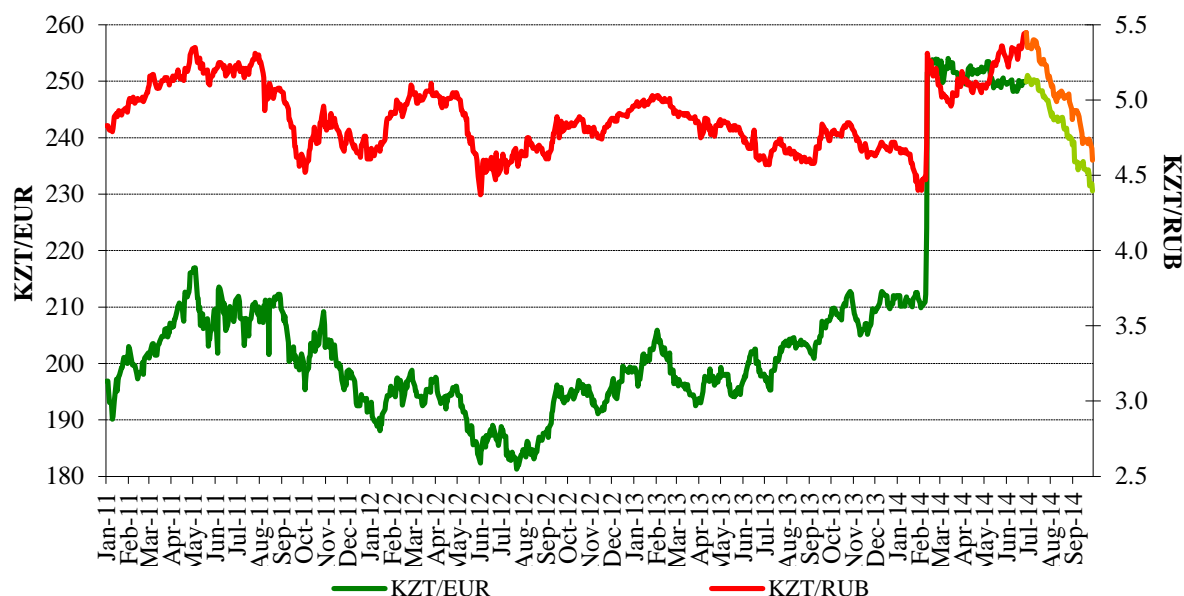
In July, August and September 2014, the exchange rate of the Tenge appreciated versus the US Dollar by 0.1%, 0.7% and 0.1%, respectively.

Since the transaction volumes in the Euro and the Russian ruble remain insignificant in the stock exchange segment of the domestic foreign exchange market, the exchange rate of the Tenge versus those currencies is calculated based on the cross-rate to the US Dollar. So, the dynamics of the exchange rate of the Tenge versus the Euro and the Russian ruble was driven by the dynamics of the exchange rate of the Tenge versus the US Dollar, the status of the common European currency in the international financial market and the policy implemented by the Central bank of Russia in respect of the exchange rate of the Russian ruble against the currency basket.

In general, during the third quarter of 2014, the official exchange rate of the Tenge versus the US Dollar appreciated by 0.9%, versus the Euro – by 7.7%, and versus the Russian ruble – by 15.6% (Figure 18).

Figure 18

Dynamics of the official exchange rate of the Tenge against the Euro and the Russian ruble



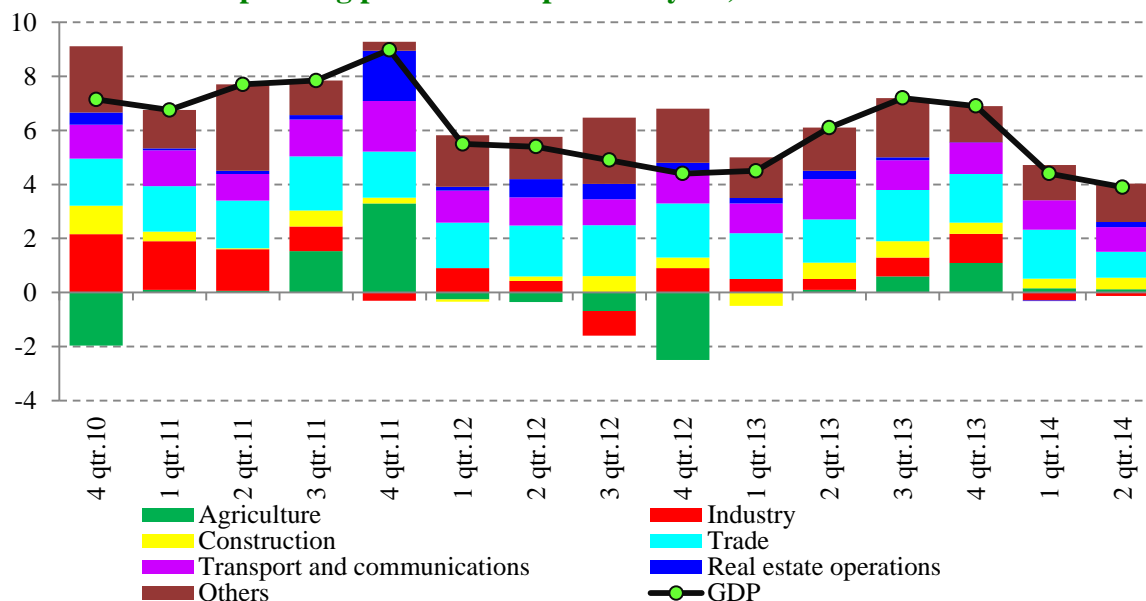
Source: National Bank of the Republic of Kazakhstan

2.2. Production

In the second quarter of 2014, the volume of GDP output amounted to KZT 8152.0 bln. in current prices. Being positively influenced by the growth of production virtually in all key sectors of the economy, the GDP in real terms (in prices of the year 2005) increased versus the second quarter of 2013, according to estimate, by 3.9% (Figure 19).

Figure 19

**Contribution of key sectors of the economy to the growth in real GDP
(as % of the corresponding period of the previous year)**



Source: Information of the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

Production of goods. In the segment of the production of goods, agriculture and the construction sector showed up growth whereas the industry demonstrated decline. According to estimate, in the second quarter of 2014, the construction volume increased by 4.5% (in the first quarter of 2014 – the growth of 3.9%), agriculture showed the increase of 2.9% (the growth of 3.5%), and the volume of industrial output decreased by 0.5% (the decline of 1.1%). As a result, the segment of goods production made positive contribution to the GDP formation of (+)0.4%.

Production of services. In the production of services, all key sectors comprising this component of the gross domestic product demonstrated growth. As a result, the sectors that comprise the production of services sector on aggregate ensured positive contribution to the GDP growth of (+)3.0%.

Net taxes on foodstuffs and imports. The 10.4% increase in the volume of net taxes on foodstuffs and imports has positively influenced the formation of GDP growth of (+)0.5% (in the first quarter of 2014 the contribution accounted for (+)0.8%).

Therefore, the main driver for the GDP growth in the second quarter of 2014 (just like in the first quarter of 2014) was the production of services sector.

2.3. Labor Market

2.3.1. Employment and Unemployment

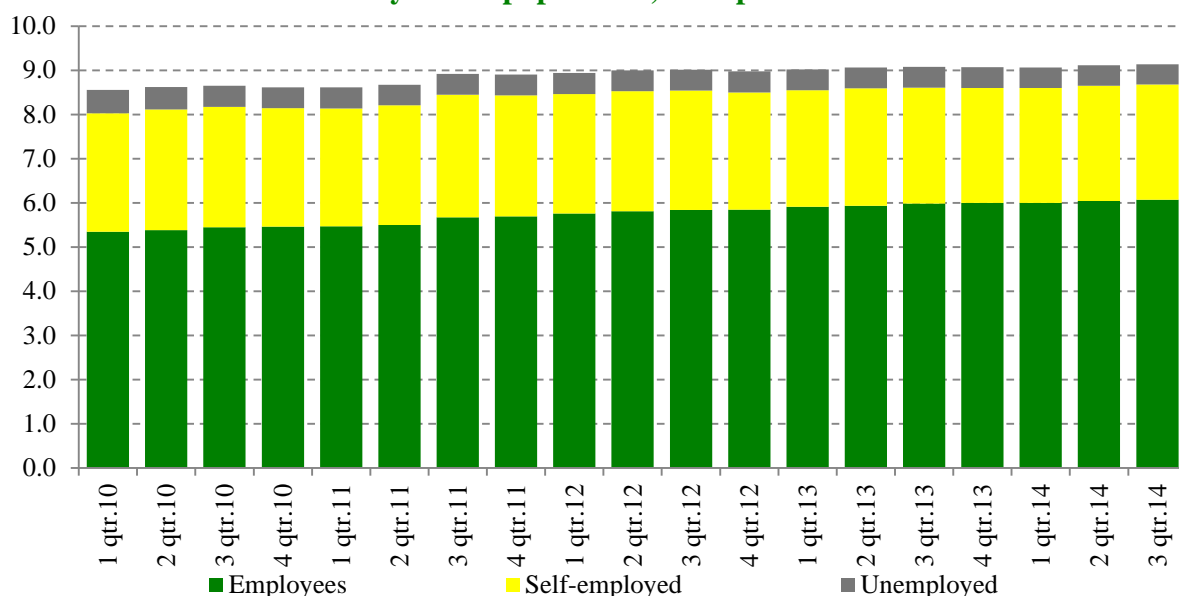
According to preliminary estimates, in the third quarter of 2014, the number of people employed in the economy amounted to 8.7 million, having increased by 0.3% versus the second quarter of 2014 (the growth versus the third quarter of 2013 accounted for 0.8%). At the same time, the number of employees reached 6.1 million, having increased by 0.6% versus the second quarter of 2014, and the number of self-employed amounted to 2.6 million (the decrease of 0.2%).

Within the employee structure, public and non-public institutions employee number accounted for 5.0 million persons (83.1% of all employees), the number of people working for individuals – 0.7 million persons (11.9%), and at farms – 0.3 million persons (5.0%).

In the third quarter of 2014, the number of the unemployed stood at 458 100 persons, which is by 0.6% less than in the previous period and by 2.2% less than in the third quarter of 2013 (Figure 20).

Figure 20

Structure of the economically active population, mln. persons



Source: Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan

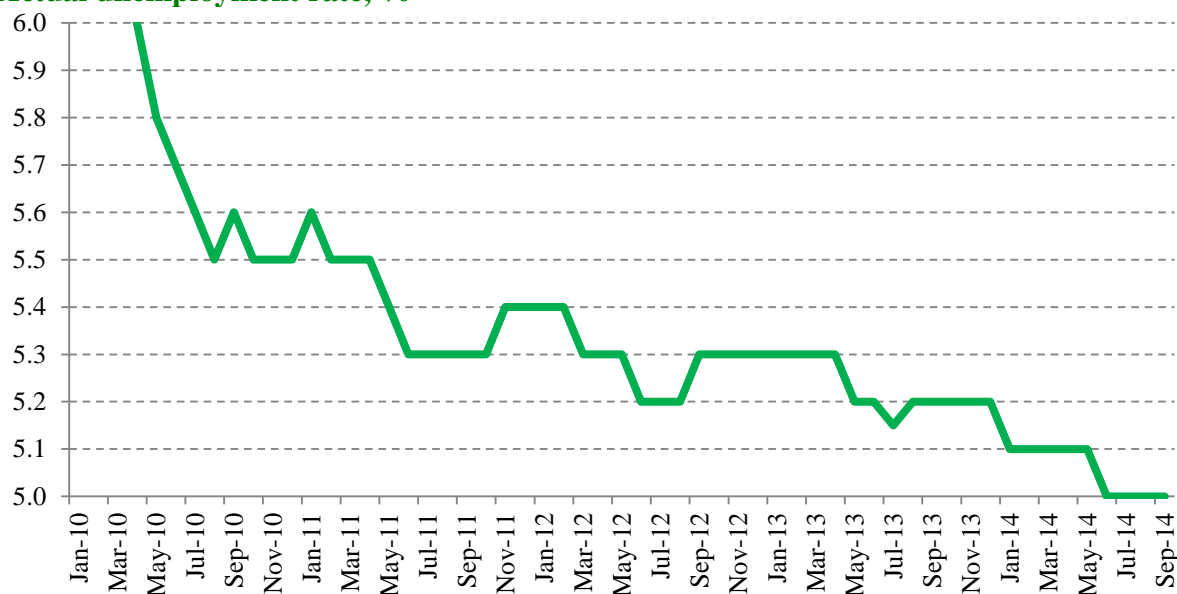
In July, August and September 2014, the following industry-based structural changes in the composition of employees working at medium- and large enterprises were observed.

The key sectors that promoted the growth in employment versus the corresponding months of 2013 were as follows: trade; activity in the area of administrative and ancillary service; accommodation and catering services; construction; arts, entertainment and leisure.

The decreased number of the employed was noted in the following sectors: agriculture, forestry and fishery; the industry; information and communications; and real estate operations.

The decrease in the number of the employed in some sectors was fully compensated by their growth in other sectors. As a result, the unemployment rate in the third quarter of 2014 accounted for 5.0%, and it decreased by 0.2 percentage points versus the third quarter of 2013 (Figure 21).

Figure 21

Actual unemployment rate, %

Source: Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan

2.3.2. Wages and Productivity

In the second quarter of 2014 as compared to the corresponding period of the previous year, average nominal monthly wages increased by 12.6% (in the first quarter of 2014 – the growth of 7.5%), and in real terms – by 5.8% (the growth of 1.9%).

Compared to the previous quarter, nominal wages grew by 11.0%, and real wages increased by 8.7%.

In June 2014 as compared to June 2013, nominal wages increased in all key economic activities. The highest increase in indicators was observed in the following sectors: information and communications – by 27.8%; the mining industry – by 23.1%; transport and warehousing – by 22.5%; the industry – by 18.9%; construction – by 18.2%; electricity supply, gas and vapor supply and air conditioning – by 17.4%; the manufacturing industry – by 15.5%; and water supply; sewage system, control over waste collection and distribution – by 15.5%.

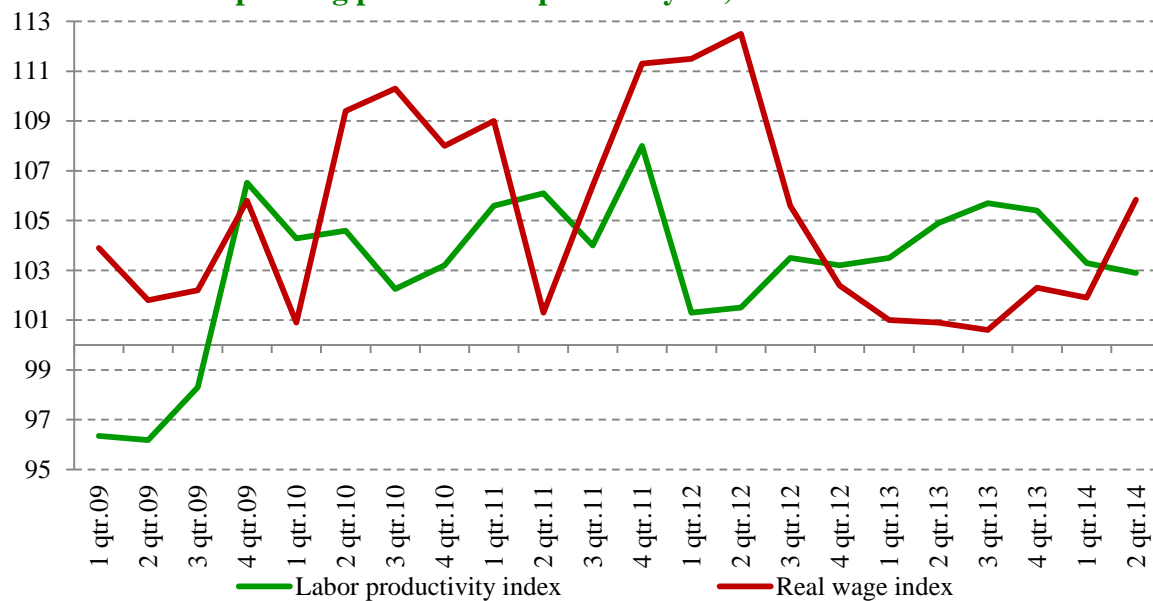
In June 2014, the highest wages in money terms were observed in the “mining industry and quarry operations” (KZT 243 300), as well as in the “professional, scientific and technical activity” (KZT 224 000), and the lowest – in “agriculture, forestry and fishery” (KZT 69 200).

In the second quarter of 2014, the growth in wages of employees in real terms increased by 5.8% versus the corresponding period of the last year; this is higher than the growth rates in the three prior periods (in the third quarter of 2013 – the growth of 0.6%, in the fourth quarter of 2013 – the growth of 2.3%, and in the first quarter of 2014 – the growth of 1.9%).

Accelerated rates of the wage growth in the second quarter of 2014, along with accelerated growth in the number of people employed in the economy, influenced the rate of growth in the labor productivity index (according to the National Bank’s estimate), which slowed down to 2.9% versus the level of the previous quarter (3.3%) (Figure 22).

Figure 22

Dynamics of labor productivity and real wages
 (as % of the corresponding period of the previous year)



Source: Information of the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

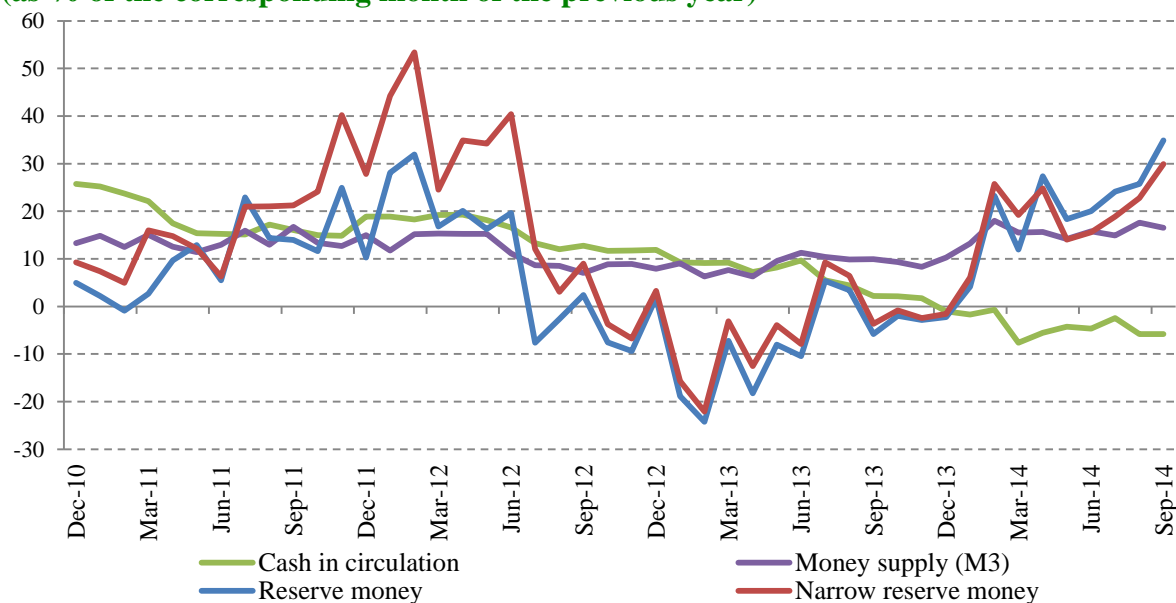
3. Money Supply

3.1. Monetary Aggregates

In the third quarter of 2014, annual rates of expansion in the reserve money and narrow reserve money as well as annual rates of growth in the money supply (M3) were high, whereas annual rates of growth in cash in circulation had been negative (Figure 23).

Figure 23

Dynamics of monetary aggregates
(as % of the corresponding month of the previous year)



Source: National Bank of the Republic of Kazakhstan

3.1.1. Reserve Money

During the third quarter of 2014, the reserve money expanded by 1.0% and amounted to KZT 3753.1 bln. at end-September 2014. The narrow reserve money expanded by 1.4% to KZT 3574.9 bln.

In September 2014 versus September 2013, the reserve money expanded by 34.9%.

In September 2014 against the corresponding month of 2013, net international reserves of the National Bank increased by 14.8% to USD 27.1 bln., where net foreign currency holdings (CQTR) increased by 12.5% in the reviewed period, and assets denominated in gold increased by 21.6%.

In September 2014 versus September 2013, net domestic assets of the National Bank less the National Fund's assets decreased (Table 2).

Table 2

Dynamics of changes in assets and liabilities of the National Bank
(as % of the corresponding period of the previous year)

	4 qtr.13	1 qtr.14	2 qtr.14	3 qtr.14
Net international reserves	-12.9	-7.0	0.3	14.8
Net domestic assets	114.6	-977.1	-229.2	-78.5
Net claims on the Government	47.6	10.3	-4.3	69.8
Claims on the economy	28.1	58.8	32.9	9.1
Other net domestic assets	20.9	-52.4	-115.5	-61.6
Reserve money	-2.2	11.9	20.1	34.9
Narrow reserve money	-1.6	19.2	15.6	29.9

Source: National Bank of the Republic of Kazakhstan

3.1.2. Money Supply

During the third quarter of 2014, the money supply (M3) increased by 0.4% to KZT 13466.8 bln.

In September 2014 versus September 2013, its growth accounted for 16.5% (Table 3).

Table 3

Dynamics of changes in money supply
(as % of the corresponding period of the previous year)

	4 qtr.13	1 qtr.14	2 qtr.14	3 qtr.14
Net foreign assets	11.0	30.7	30.8	29.8
Domestic assets	12.8	-4.0	-9.1	6.0
Claims on the Government	22.9	-10.7	-19.9	78.8
Claims on the economy	12.7	19.4	15.5	11.7
Other net domestic assets	-14.6	-32.2	-30.6	-19.2
Money supply (M3)	10.2	15.5	15.8	16.5
Cash in circulation	-1.0	-7.6	-4.7	-5.8
Deposits of residents	12.1	18.9	18.9	19.7

Source: National Bank of the Republic of Kazakhstan

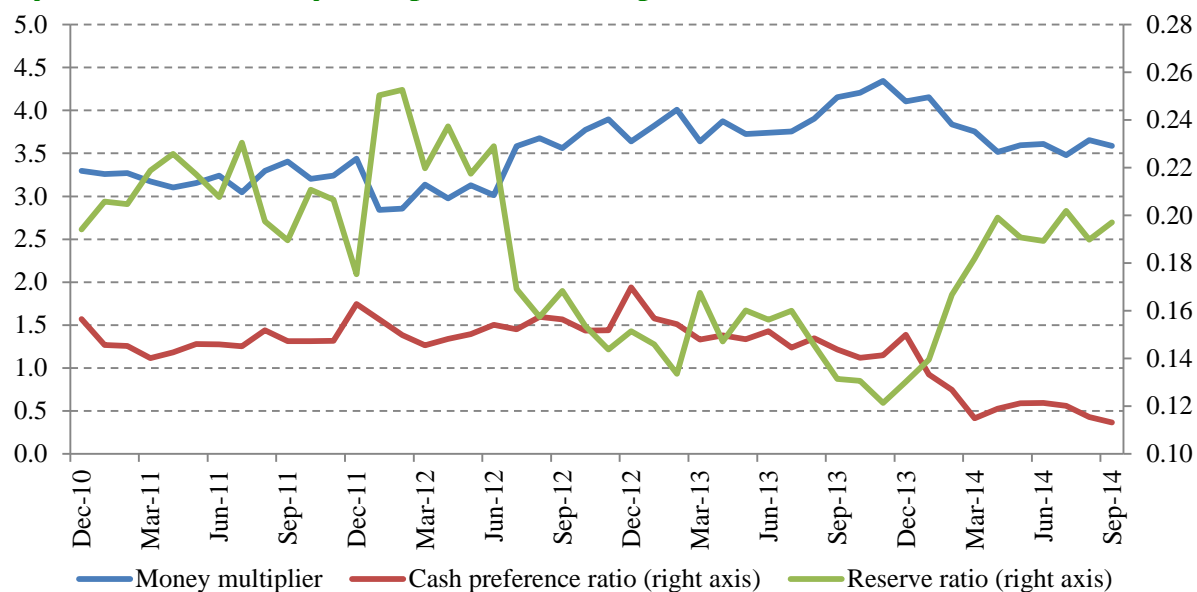
In the structure of net foreign assets of the banking system in September 2014 against the corresponding month of 2013, net foreign assets of the second-tier banks increased. The growth in net foreign assets of banks was mainly caused by the growth in liabilities from non-residents.

During the reviewed period, the growth in deposits against the decreased cash in circulation was noted in the structure of main components of the money supply. As a result, the share of deposits of residents in the structure of the money supply increased from 87.4% in September 2013 to 89.8% as of the end of September 2014.

The money multiplier decreased from 4.15 in September 2013 to 3.59 in September 2014 as a result of outstripping rates of expansion in the reserve money against the rates of growth in the money supply. At the same time, during the reviewed period the cash preference ratio decreased against the increase in the reserve ratio (Figure 24).

Figure 24

Dynamics of the money multiplier and its components



Source: National Bank of the Republic of Kazakhstan

3.1.3. Cash in Circulation

During the third quarter of 2014, the volume of cash in circulation decreased by 5.7% to KZT 1369.3 bln.

In September 2014 versus September 2013, cash in circulation decreased by 5.8%. Alongside with that, payouts from the cash departments of banks decreased by 12.1% to KZT 1.8 trln., and receipts to the cash departments of banks decreased by 12.2% to KZT 1.8 trln.

The decrease in cash in circulation in September 2014 against the corresponding month of 2013 was associated with preponderance of receipts over payouts in realization of goods, services and delivered works, on foreign exchange operations, on loans, on lump-sum transfers of individuals (without opening an account) and other items in the reviewed period. The impact of the above factors was not neutralized by payouts associated with the labor compensation, payment of retirement benefits and social allowances, payouts to support ATMs through which the population cashes out its earnings.

3.2. Financial Market

3.2.1. Deposits of Residents

At end-September 2014, deposits of residents amounted to KZT 12097.5 bln., having increased by 1.2% during the third quarter of 2014. Deposits of legal entities increased by 1.5%, and deposits of individuals increased by 0.5%.

Within the structure of deposits, the volume of term deposits (under the IMF classification – “other deposits”¹) increased by 5.6% during the third quarter of 2014 and amounted to KZT 8229.6 bln. at end-September 2014. Term deposits in the domestic currency grew by 4.8% to KZT 4312.1 bln., and foreign currency deposits increased by 6.6% to KZT

¹ Other deposits - savings and fixed-term deposits which may be withdrawn only upon expiry of a certain time period or may have various restrictions that make them less convenient in terms of their use in the day-to-day commercial operations and which basically comply with the requirements to the savings vehicles.

3917.4 bln. During the quarter, the relative share of term deposits in the total deposit base increased from 65.1% to 68.0%.

In the third quarter of 2014, the status of the deposit base was characterized by the growth in foreign currency deposits caused by the increase in foreign currency holdings of legal entities and individuals by 3.1% и 3.6%, respectively. As a result, in the third quarter of 2014, the volume of foreign currency deposits increased by 3.3%, amounting to KZT 5515.1 bln., whereas deposits in the domestic currency decreased by 0.6%, to KZT 6582.4 bln.

The 4.1% increase in the volume of foreign currency holdings of legal entities in September 2014, despite their minor decrease in July and August 2014 (by 0.1% and 0.9%, respectively), resulted in the increased degree of the deposit market dollarization and the decrease in the relative share of deposits in the domestic currency from 55.4% in June 2014 to 54.4% in September 2014.

Thus, the inflow of the foreign currency to the accounts of legal entities served as a main source for the bank deposit base growth in the third quarter of 2014. Alongside with that, the growth in the Tenge deposits of legal entities also showed positive dynamics which was observed in August and September 2014 – the growth by 0.8% and 0.9%, respectively, despite the 1.2% decrease in July (Table 4).

Table 4

Dynamics of changes in deposits of residents
(as % change from December of the previous year)

	September 2011	September 2012	September 2013	September 2014
Deposits of residents	4.8	0.9	0.5	1.2
<i>individuals</i>	<i>5.4</i>	<i>4.1</i>	<i>3.0</i>	<i>0.5</i>
<i>non-bank legal entities</i>	<i>4.6</i>	<i>-0.8</i>	<i>-0.9</i>	<i>1.5</i>
Deposits in the Tenge	1.7	1.3	-4.1	-0.6
Deposits in foreign currency	11.7	-0.2	9.4	3.3

Source: National Bank of the Republic of Kazakhstan

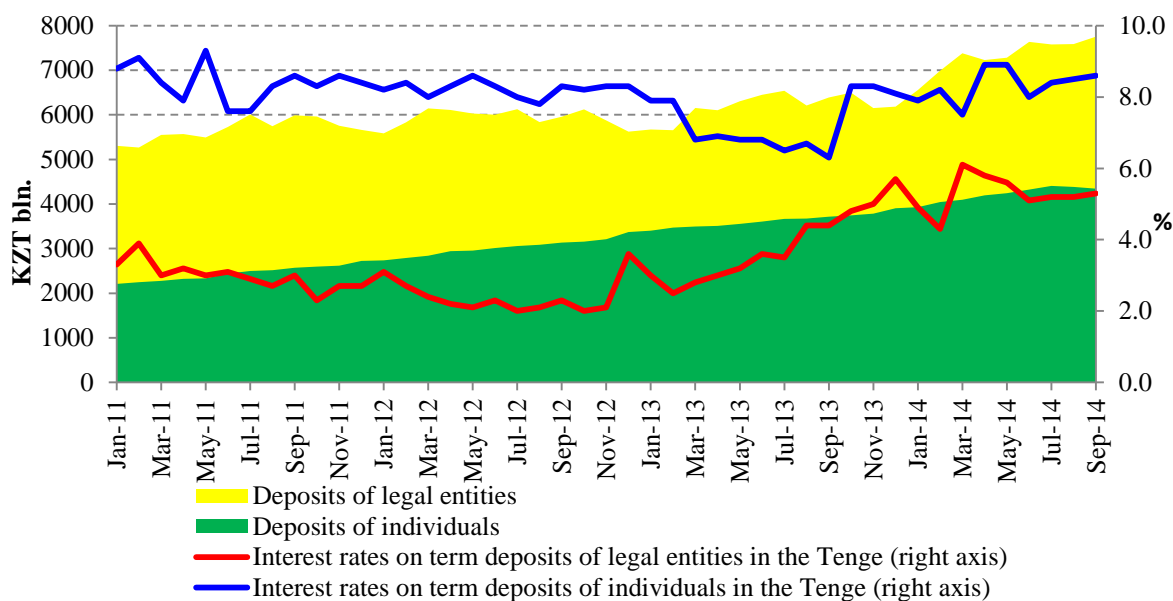
As compared to the previous quarter, in the third quarter of 2014 interest rates on deposits slightly decreased; such decrease was mainly caused by the decrease in the domestic currency's interest rates in August and the decrease in foreign currency's interest rates in July and September.

As a result, the average rate on the Tenge deposits decreased to 5.6% in the third quarter of 2014 (the second quarter of 2014 – 5.8%), and on deposits in freely convertible currencies – to 2.6% (2.9%).

The weighted average interest rate on Tenge term deposits of non-bank legal entities in September 2013 was 5.3% (in June 2014 – 5.1%), and on deposits of individuals – 8.6% (8.0%) (Figure 25).

Figure 25

Dynamics of deposit volumes and interest rates on term deposits



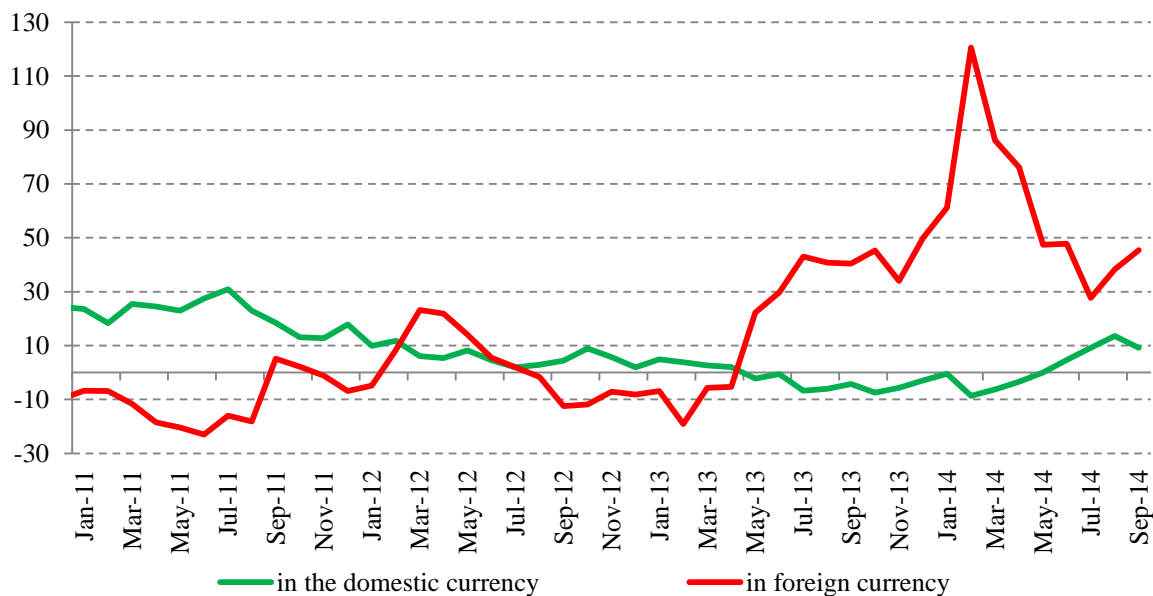
Source: National Bank of the Republic of Kazakhstan

During the third quarter of 2014, the volume of deposits of legal entities increased by 1.5% to KZT 7753.2 bln., with their annual growth (September 2014 to September 2013) accounting for 21.4%. In annual terms, deposits of legal entities in the domestic currency increased by 9.2%, and foreign currency deposits increased by 45.4% (Figure 26).

Figure 26

Dynamics of the flow of deposits of legal entities

(as % change to the corresponding period of the previous year)



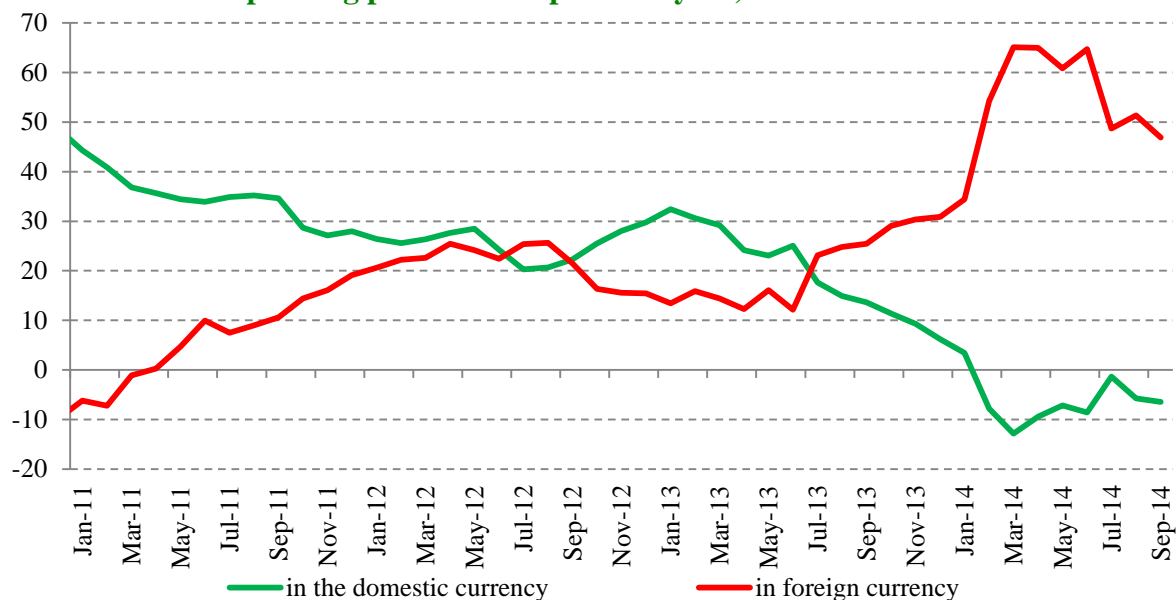
Source: National Bank of the Republic of Kazakhstan

During the third quarter of 2014, the volume of deposits of individuals increased by 0.5% to KZT 344.3 bln., with the annual growth accounting for 16.9%. In annual terms,

deposits of individuals in the domestic currency decreased by 6.4%, and foreign currency deposits increased by 46.9% (Figure 27).

Figure 27

**Dynamics of the flow of deposits of individuals
(as % of the corresponding period of the previous year)**



Source: National Bank of the Republic of Kazakhstan

3.2.2. Credits to the Economy

During the third quarter of 2014, bank credits to the economy increased by 0.5% to KZT 12228.3 bln. During July-September 2014, credits to legal entities increased by 0.04%, amounting to KZT 8203.7 bln., and credits to individuals increased by 1.6% to KZT 4024.6 bln.

The volume of credits in the domestic currency increased by 4.5%, to KZT 8486.3 bln., and the volume of credits in foreign currency decreased by 7.5%, to KZT 3742.0 bln.

During July-September 2014, long-term lending increased by 1.6% to KZT 9937.8 bln., and short-term lending decreased by 3.7%, amounting to KZT 2290.4 bln. As a result, in September 2014 as compared to June 2014, the relative share of long-term credits increased from 80.5% to 81.3%.

In September 2014, the weighted average interest rate on credits in the domestic currency provided to non-bank legal entities decreased to 10.1% (in June 2014 – 10.4%), and the weighted average interest rate on credits in the Tenge provided to individuals accounted for 18.5% (in June 2014 – 19.8%). In the third quarter of 2014 as a whole, the cost of borrowing decreased versus the level of the previous period (Figure 28).

In the credits breakdown by means of financing, the major volume of debt fell on credits provided for the purchase of working capital (25.9%), other purposes (22.3%), new construction and reconstruction (12.6%), as well as for consumer needs of individuals (21.0%).

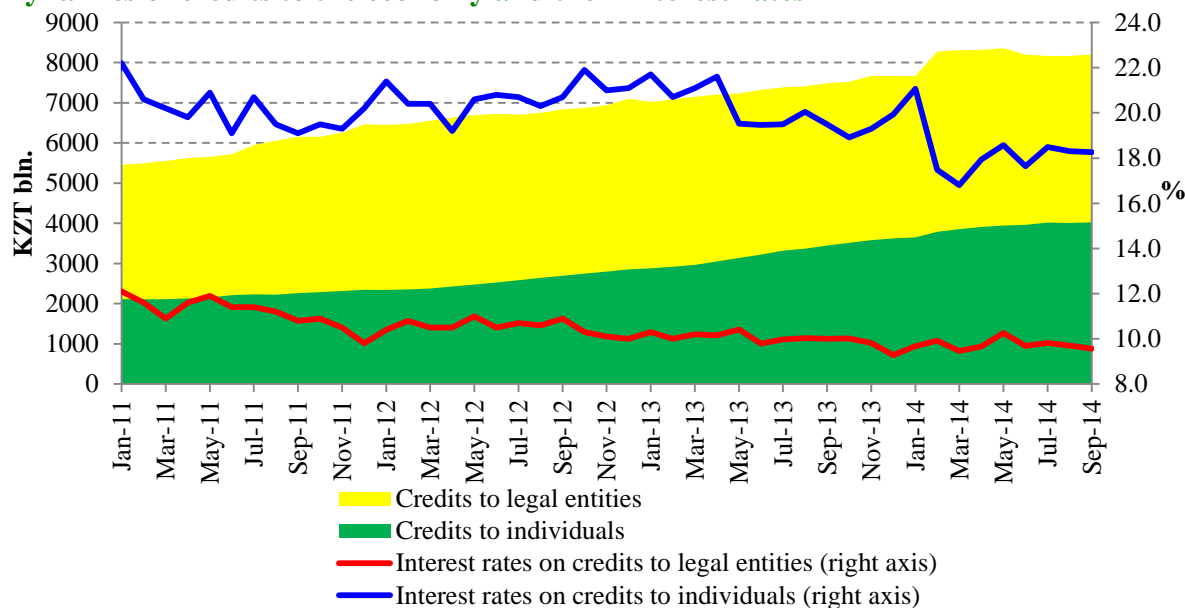
As per the breakdown by sector, the largest amount of bank credits falls on other sectors (non-production sphere and individual entrepreneurship) – 50.8%, trade – 19.6%, construction – 10.9%, and industry – 10.9%.

During the third quarter of 2014, credits delivered to the agricultural sector increased by 5.6%, to the industry – by 1.3%, and trade – by 0.1%. Credits delivered to the

communications sector decreased by 4.5%, to the construction sector – by 2.9%, and to the transport sector – by 4.2%.

Figure 28

Dynamics of credits to the economy and their interest rates



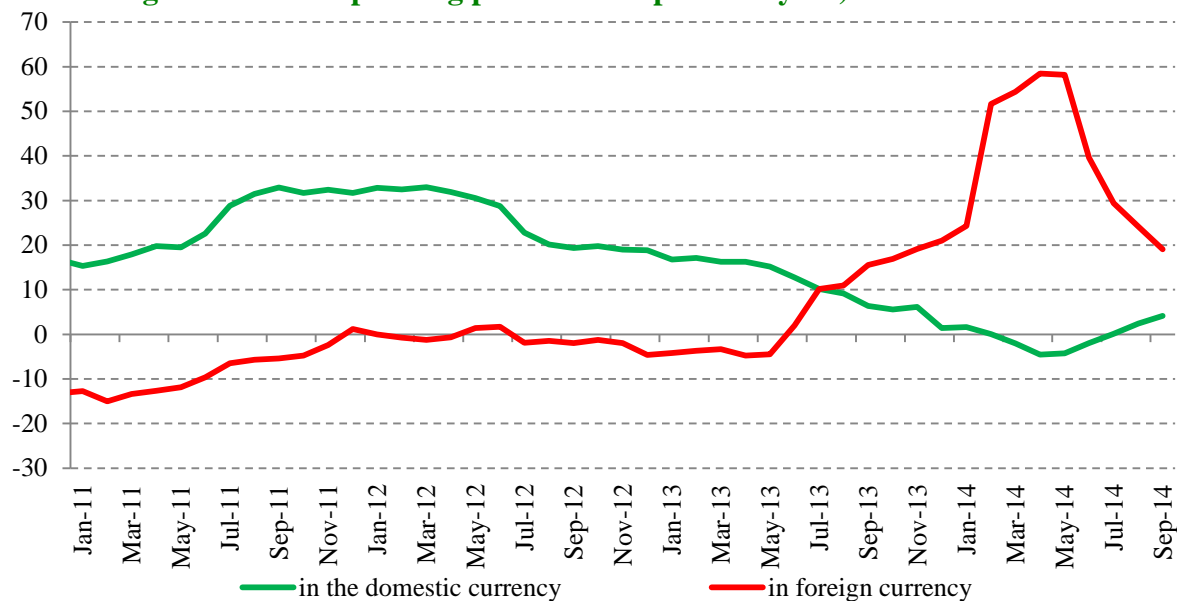
Source: National Bank of the Republic of Kazakhstan

The volume of credits to legal entities on a year-to-year basis (September 2014 to September 2013) increased by 9.6%. At end-September 2014, the share of medium- and long-term credits in total credits to legal entities accounted for 74.7%, whereas in June 2014 it reached 73.8%.

On a year-to-year basis, credits to legal entities in the domestic currency increased by 4.1% and foreign currency credits – by 19.0% (Figure 29).

Figure 29

Dynamics of credits to legal entities
(as % change to the corresponding period of the previous year)



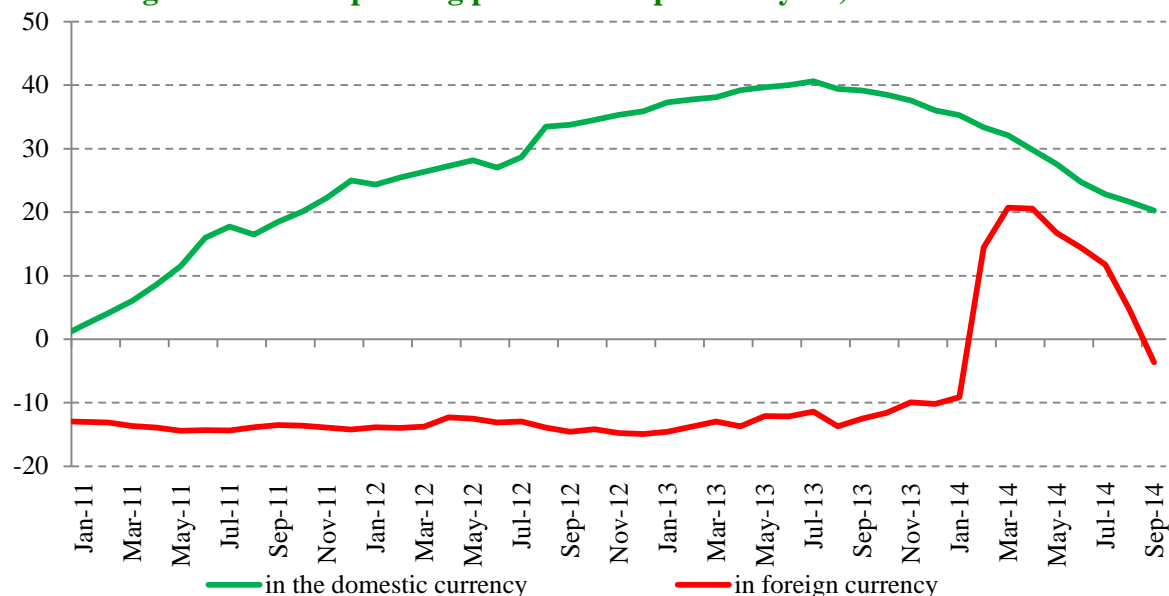
Source: National Bank of the Republic of Kazakhstan

In September 2014 as compared to the corresponding period of 2013, the volume of credits to individuals increased by 16.7%. At end-September 2014, the share of medium- and long-term credits in total credits to individuals increased and accounted for 94.6%, versus 94.3% in June 2014.

In the structure of credits to the population, credits in the domestic currency demonstrated the 20.3% increase, and foreign currency credits – the decrease of 3.6% (Figure 30).

Figure 30

Dynamics of credits to the population
(as % change to the corresponding period of the previous year)



Source: National Bank of the Republic of Kazakhstan

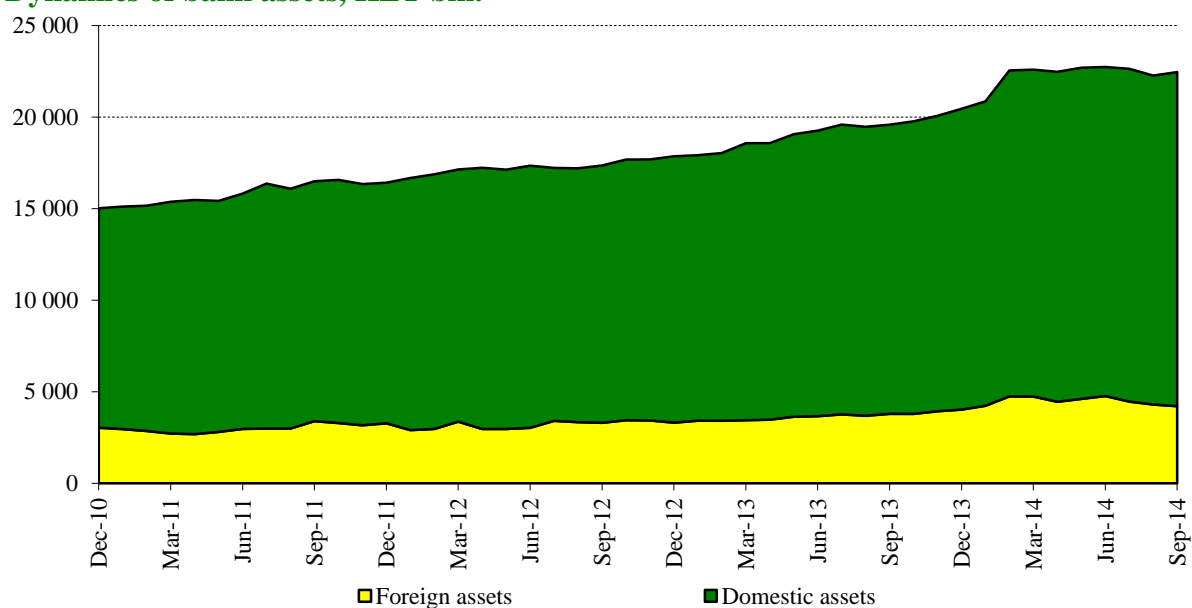
3.2.3. Bank Assets and Liabilities

– Assets

In the third quarter of 2014, the amount of bank assets calculated on the basis of the Monetary Survey decreased by 1.2% to KZT 22.5 trln. On a year-to-year basis (September 2014 to September 2013), bank assets increased by 14.7% (Figure 31).

Figure 31

Dynamics of bank assets, KZT bln.



Source: National Bank of the Republic of Kazakhstan

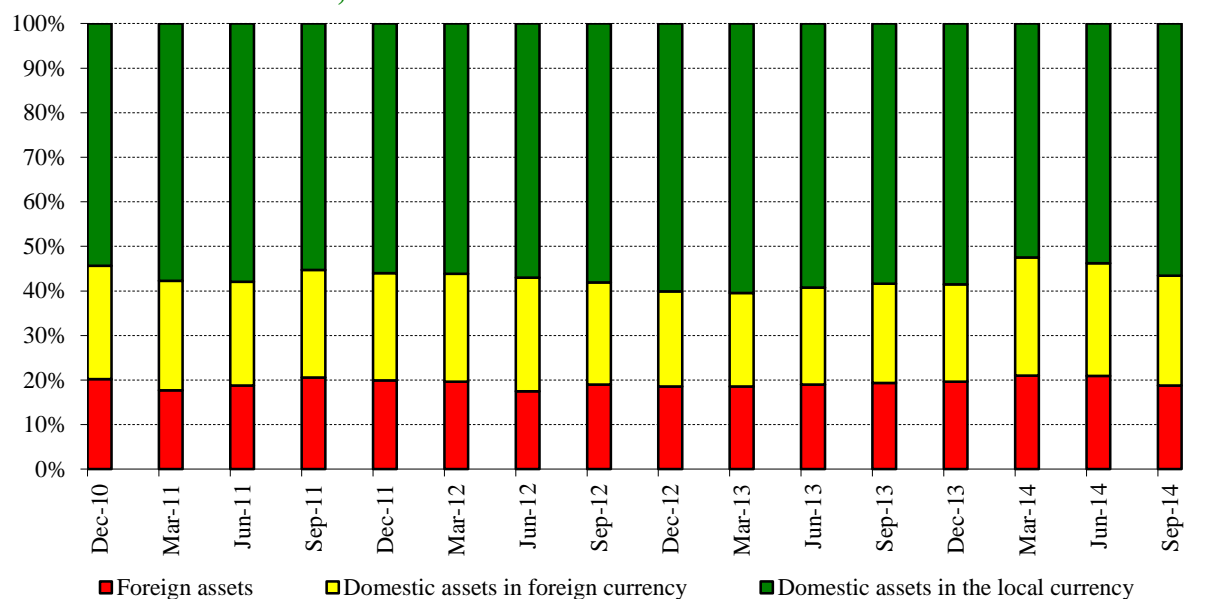
In September 2014, foreign assets of banks accounted for 18.7% of the total volume of assets or KZT 4.2 trln. As compared to September 2013, they increased by 11.0%.

Within the structure of foreign assets in September 2014, credits to non-residents accounted for 51.7% (in June 2014 – 48.7%), deposits placed with non-residents – 22.5% (in June 2014 – 28.5%), securities issued by non-residents – 5.3% (in June 2014 – 4.5%), and other accounts receivable – 20.5% (in June 2014 – 18.3%).

In September 2014, domestic assets accounted for 81.3% or KZT 18.2 trln., with domestic assets in the local currency accounting for 69.7% or KZT 12.7 trln., and foreign currency assets – for 30.3% or KZT 5.5 trln. During the third quarter of 2014, domestic assets increased by 1.5%, where assets in the local currency increased by 3.9%, and assets in foreign currency decreased by 3.6% (Figure 32).

Figure 32

Structure of bank assets, %

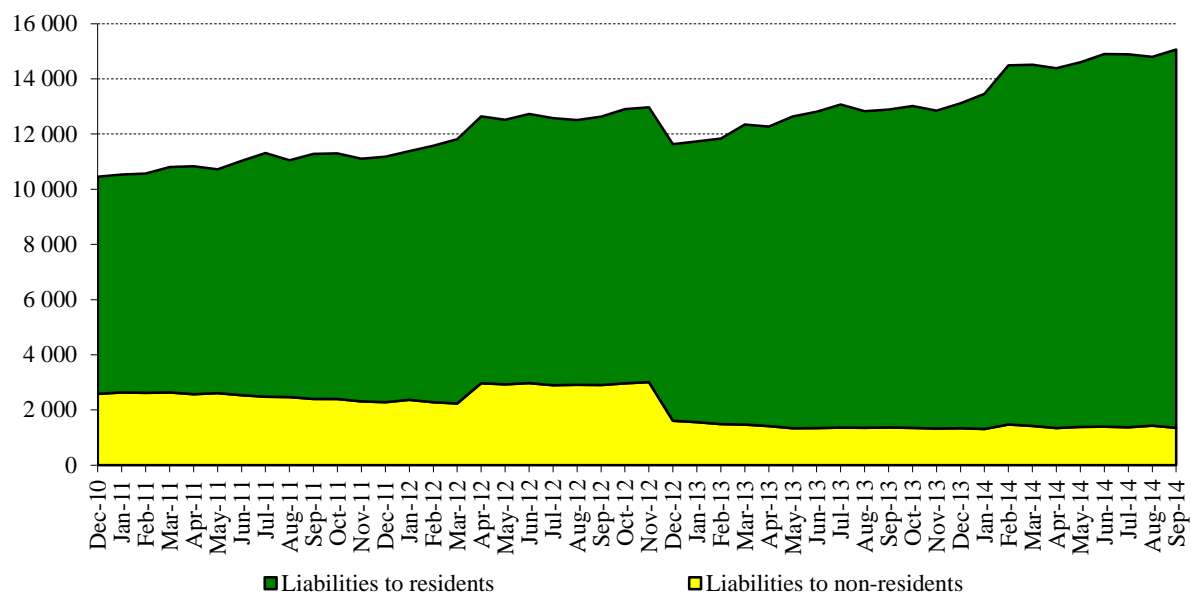


Source: National Bank of the Republic of Kazakhstan

– Liabilities

In the third quarter of 2014, total bank liabilities calculated on the basis of the Monetary Survey increased by 1.1% and amounted to KZT 15.1 trln. (Figure 33).

Figure 33

Dynamics of bank liabilities, KZT bln.

Source: National Bank of the Republic of Kazakhstan

In September 2014 as compared to June 2014, bank liabilities to non-residents increased by 2.9% to KZT 1.4 trln. (USD 7.4 bln.), and they decreased by 1.0% versus the corresponding month of 2013. At end-September 2014, bank liabilities to non-residents accounted for 9.0% of the total volume of bank liabilities.

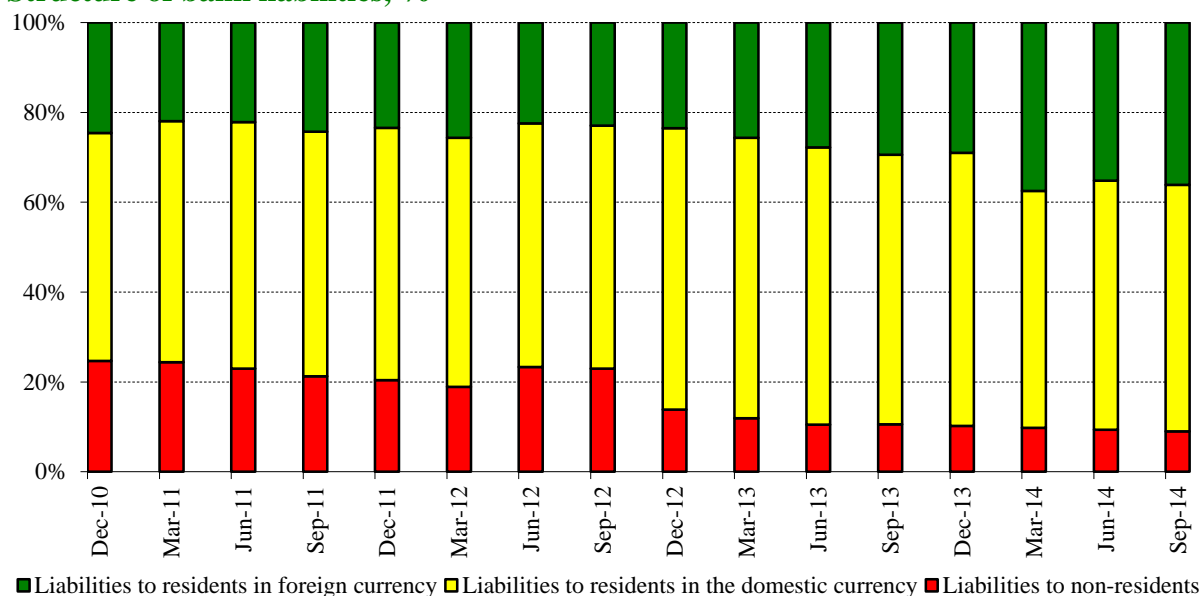
Within the structure of bank liabilities to non-residents in September 2014 the share of liabilities on deposits of non-residents increased from 24.0% to 22.6% as compared to June 2014; the share of liabilities on securities increased from 60.8% to 62.2%; and credits received from non-residents decreased from 12.9% to 12.6%, respectively.

During the third quarter of 2014, liabilities to residents increased by 1.5% to KZT 13.7 trln., with the 0.1% increase in liabilities in the domestic currency to KZT 8.3 trln.; foreign currency liabilities increased by 3.7% to KZT 5.4 trln. (Figure 34).

Thus, in the third quarter of 2014, bank liabilities to residents increased and liabilities to non-residents decreased.

Figure 34

Structure of bank liabilities, %



Source: National Bank of the Republic of Kazakhstan

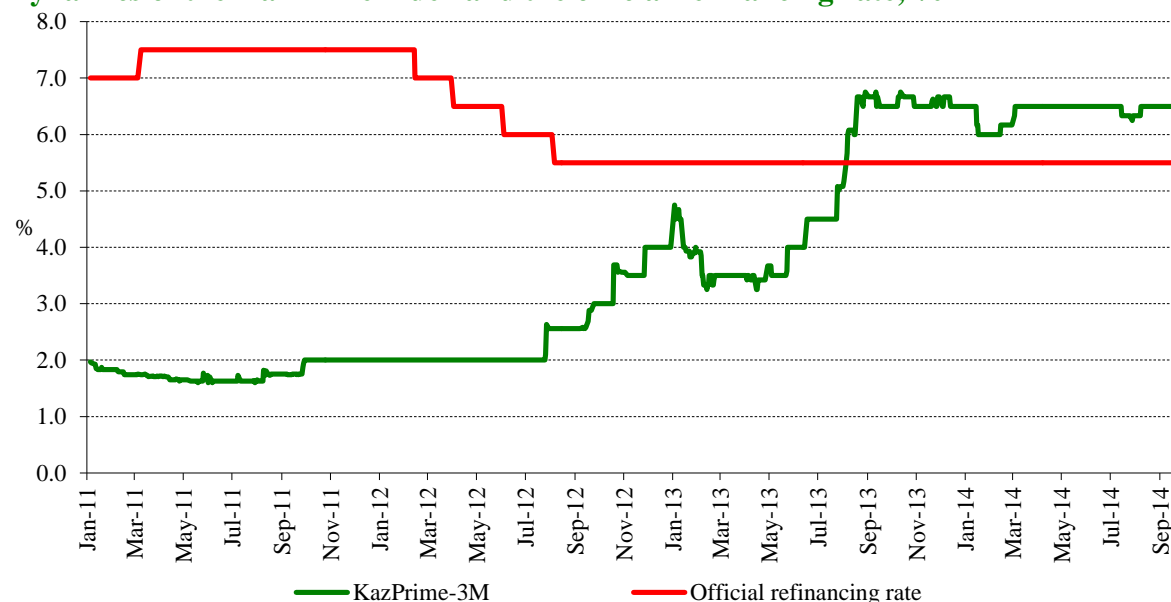
3.2.4. Financial Market Rates

In the third quarter of 2014, interest rates in the interbank market were decreasing.

The KazPrime index decreased from 6.50% on average during the second quarter of 2014 to 6.45% on average during the third quarter of 2014. At end-September 2014 versus December 2013, the index remained unchanged – 6.50% (Figure 35).

Figure 35

Dynamics of the KazPrime index and the official refinancing rate, %



Source: Kazakhstan Stock Exchange, National Bank of the Republic of Kazakhstan

In the sector of automatic REPO as a whole, the level of interest rates was decreasing.

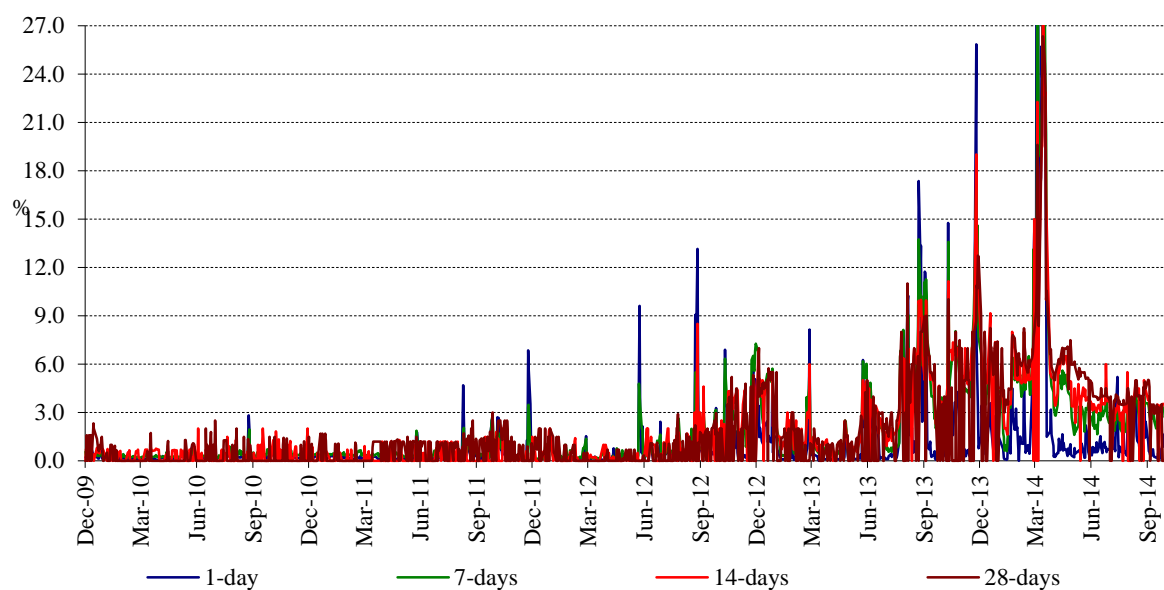
In the third quarter of 2014, the weighted average rate on 1-day operations in the sector of automatic REPO increased and accounted for 1.66% (in the second quarter of 2014 – 0.72%). Its maximum level was 5.21%, and its minimum level was 0.14%.

The weighted average rate on 7-day REPO operations in the second quarter of 2014 was fluctuating within the range from 1.75% to 4.47% (during the period as a whole, the weighted average rate accounted for 2.92%), on 14-day REPO operations – from 2.50% to 5.50% (during the period as a whole, the weighted average rate accounted for 3.58%), and on 28-day REPO operations – from 2.91% to 5.03% (during the period as a whole, the weighted average rate accounted for 3.92%) (Figure 36).

In the third quarter of 2014, the transaction volumes in the sector of automatic REPO increased by 10.8% versus the previous quarter.

Figure 36

Dynamics of rates on REPO operations, %



Source: Kazakhstan Stock Exchange

4. Monetary Policy Instruments and Operations

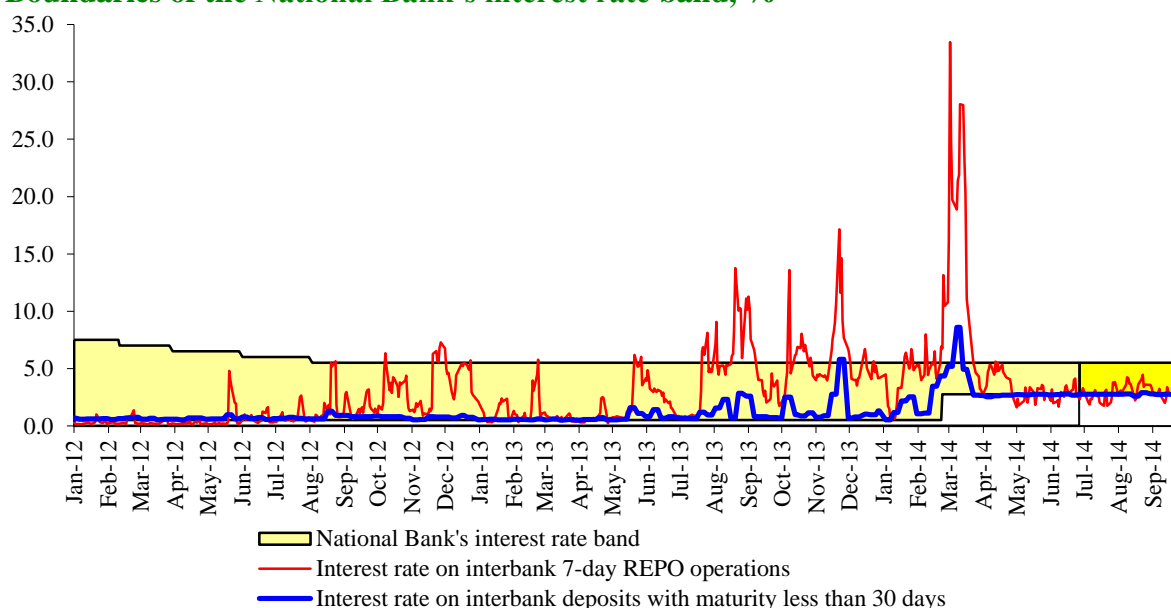
In the third quarter of 2014, the situation in the money market remained generally stable, without any significant fluctuations.

In the third quarter of 2014, the National Bank's interest rate band remained unchanged. The official refinancing rate remained at 5.5% per annum, and interest rate on 7-day deposits attracted from banks – at 2.75%.

The weighted average rate on interbank deposits with maturity less than 30 days increased from 2.69% in the second quarter of 2014 to 2.75% in the third quarter of 2014. The weighted average rate on 7-day interbank REPO operations decreased from 3.41% in the second quarter of 2014 to 2.92% in the third quarter of 2014 (Figure 37).

Figure 37

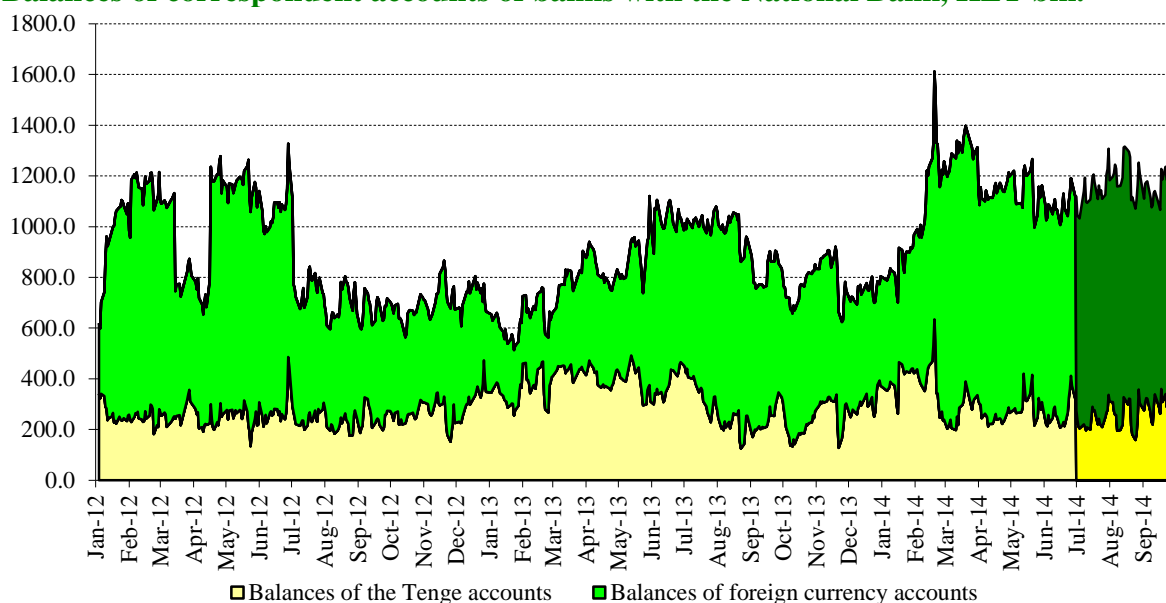
Boundaries of the National Bank's interest rate band, %



Source: National Bank of the Republic of Kazakhstan

In the third quarter of 2014, the dynamics in correspondent account balances of banks with the National Bank were multi-directional. Correspondent account balances of banks in the domestic currency generally had an upward trend. Correspondent account balances of banks in foreign currency somewhat increased in July-August 2014, and in September 2014 they demonstrated a downward trend. As a whole, at end-September 2014 as compared to June 2014, the volume of correspondent account balances in the domestic currency increased by 20.4%, and correspondent account balances in foreign currency increased by 29.4% (Figure 38).

Figure 38

Balances of correspondent accounts of banks with the National Bank, KZT bln.

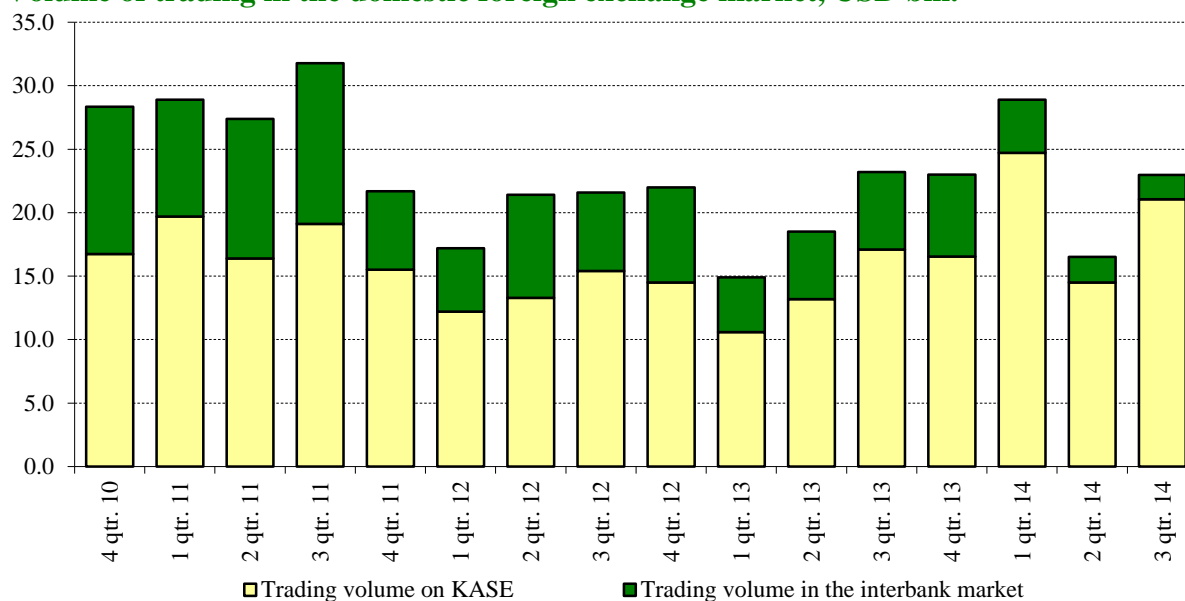
Source: National Bank of the Republic of Kazakhstan

4.1. Interventions in the Domestic Foreign Exchange Market

In the third quarter of 2014, the total trading volume in the FX segment of the Kazakhstan Stock Exchange and in the interbank foreign exchange market amounted to USD 23.0 bln., having increased by 39.0% as compared to the second quarter of 2014.

The volume of trades in the Dollar position on the Kazakhstan Stock Exchange increased by 45.2% as compared to the second quarter of 2014 and amounted to USD 21.0 bln. (net trades on the Kazakhstan Stock Exchange made up 87% of gross trades). During the third quarter of 2014, the volume of transactions in the off-exchange foreign currency market decreased by 5.0% versus the previous quarter and amounted to USD 1.9 bln. (Figure 39).

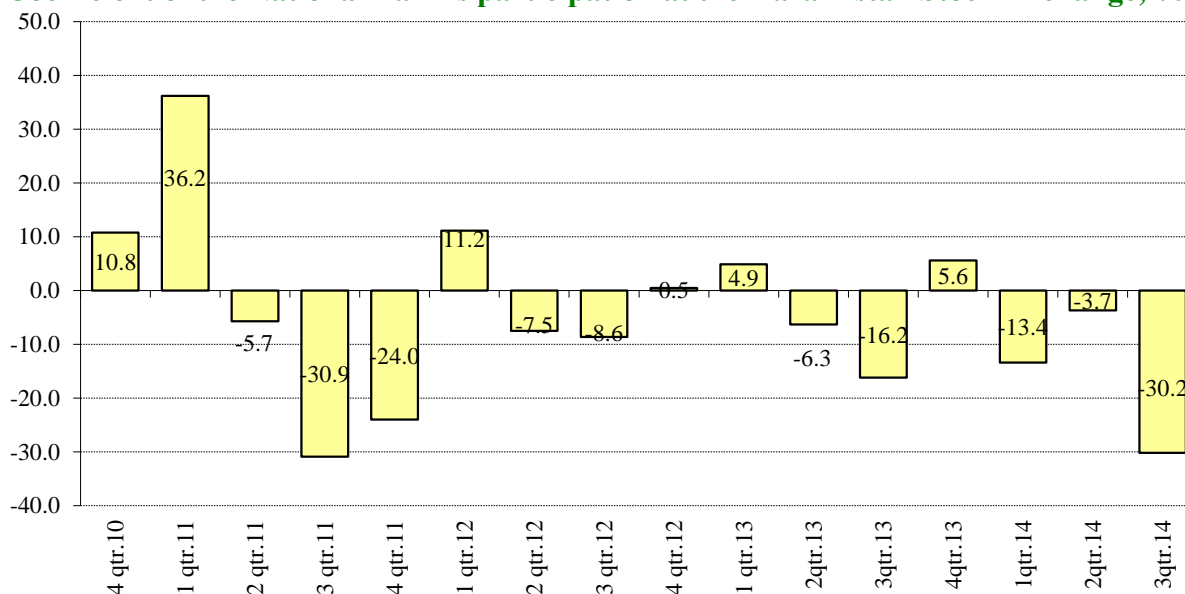
Figure 39

Volume of trading in the domestic foreign exchange market, USD bln.

Source: National Bank of the Republic of Kazakhstan

As of the end of the third quarter of 2014, the coefficient of the National Bank's participation in the Kazakhstan Stock Exchange made up -30.2% (in the second quarter of 2014 it was -3.7%) (Figure 40). Thus, in the third quarter of 2014, the National Bank was primarily a seller of foreign exchange in the domestic foreign exchange market.

Figure 40

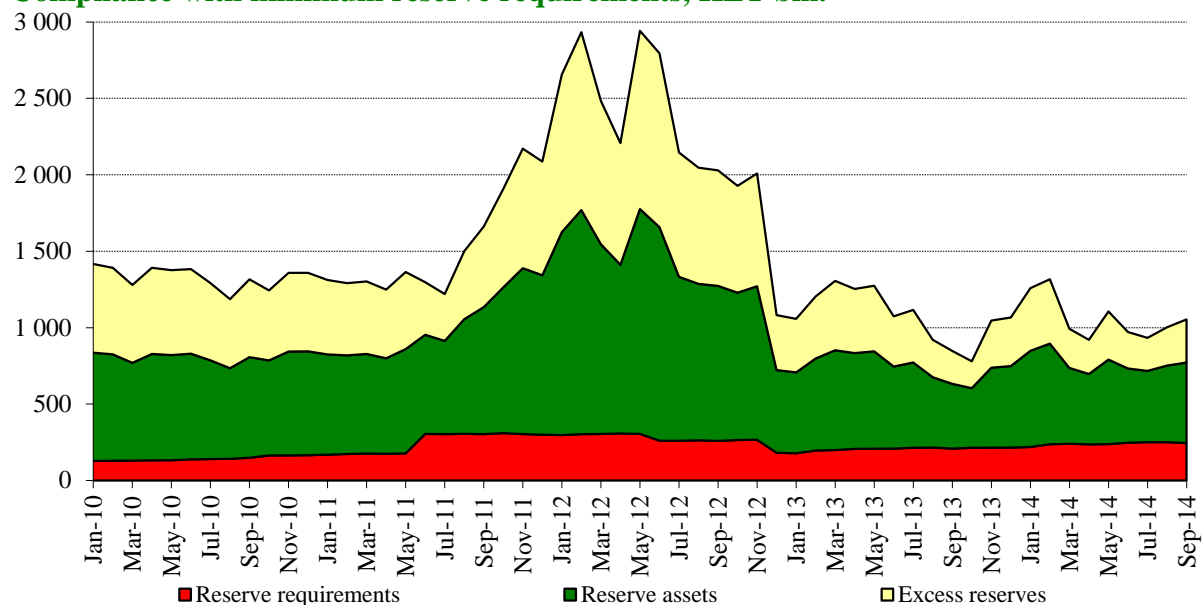
Coefficient of the National Bank's participation at the Kazakhstan Stock Exchange, %

Source: National Bank of the Republic of Kazakhstan

4.2. Minimum Reserve Requirements

During July-September 2014, reserve assets exceeded the required reserving volume by 2.2 times on average (in the second quarter of 2014 – by 2.2 times, and in the third quarter of 2013 – by 3.1 times) (Figure 41).

Figure 41

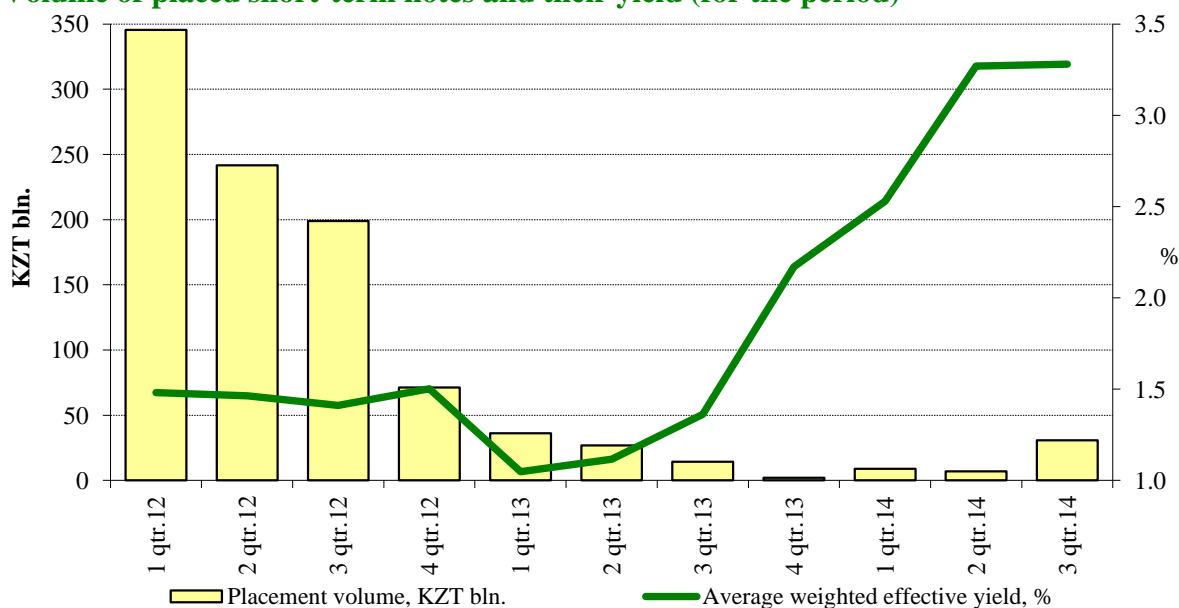
Compliance with minimum reserve requirements, KZT bln.

Source: National Bank of the Republic of Kazakhstan

4.3. Open Market Operations

In the third quarter of 2014, the demand for short-term notes of the National Bank on the part of banks remained insignificant. During the period, 3-month short-term notes totaling KZT 30.8 bln. were placed. The volume of short-term notes issued in the third quarter of 2014 increased by 4.4 times as compared to the second quarter of 2014. The average weighted yield on notes placed in September 2014 remained at the level of May 2014, accounting for 3.27% (Figure 42).

Figure 42

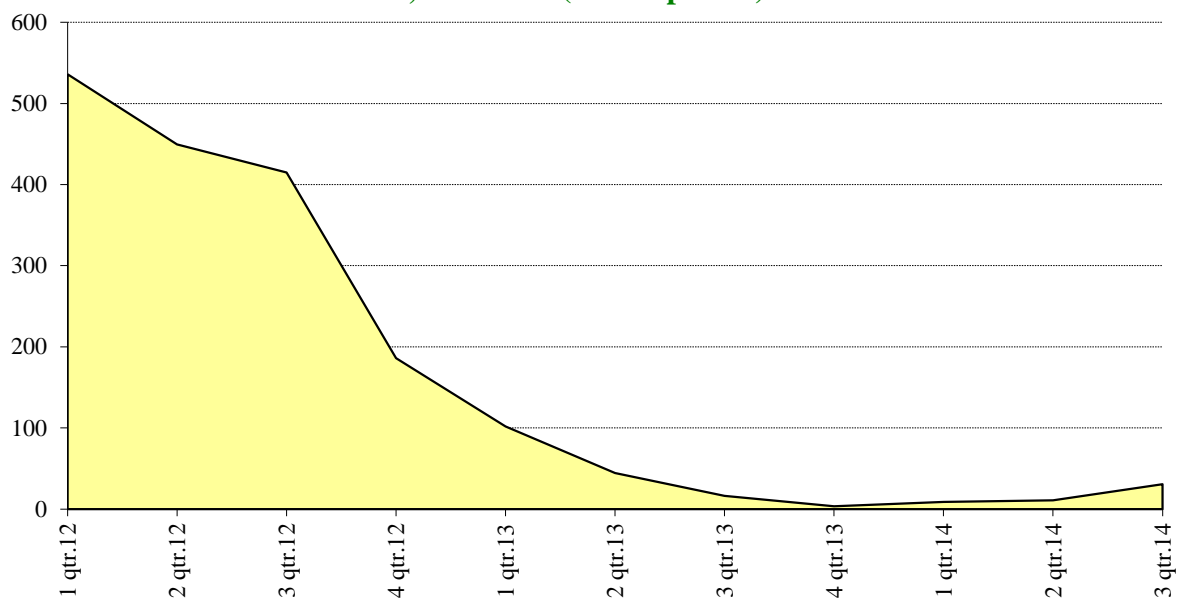
Volume of placed short-term notes and their yield (for the period)

Source: National Bank of the Republic of Kazakhstan

At end-September 2014, the volume of short-term notes in circulation amounted to KZT 30.8 bln., exceeding the volume at end-June 2014 by 2.8 times (Figure 43).

Figure 43

Short-term notes in circulation, KZT bln. (at end-period)



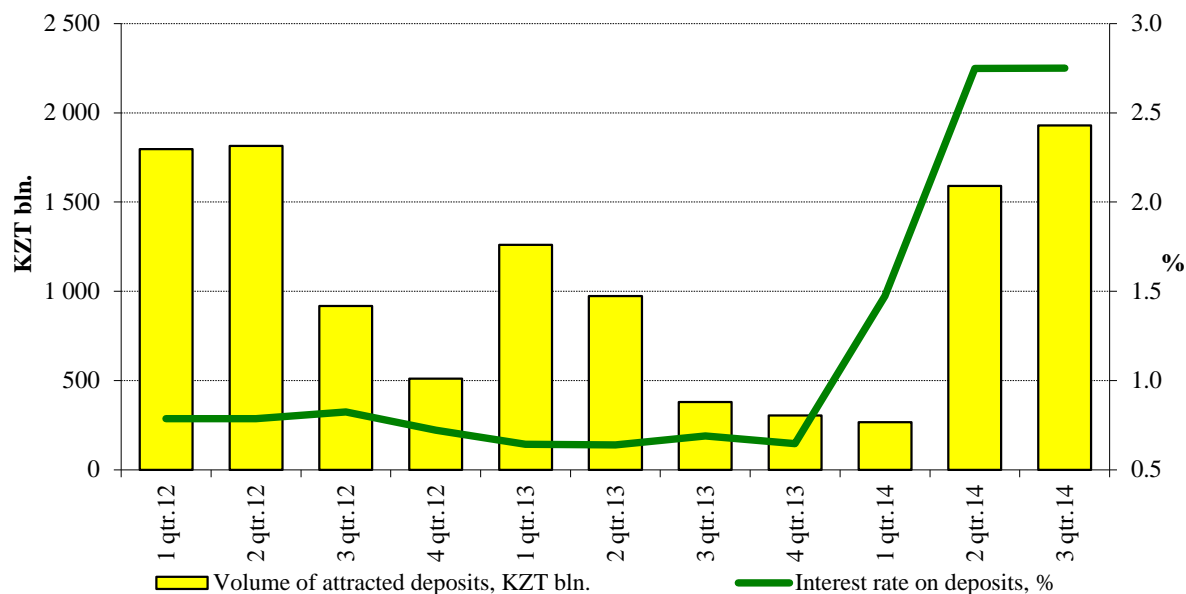
Source: National Bank of the Republic of Kazakhstan

4.4. Standing Facilities

In the third quarter of 2014, the volume of deposits attracted from banks increased versus the previous quarter. The highest volume of deposits attracted from banks was recorded in July. During the third quarter of 2014 as a whole, deposits worth KZT 1.9 trln. were attracted, exceeding the volume of the second quarter of 2014 by 21.3% and that of the third quarter of 2013 – by 5.1 times.

The average interest rate on deposits in the third quarter of 2014 was 2.75% (Figure 44).

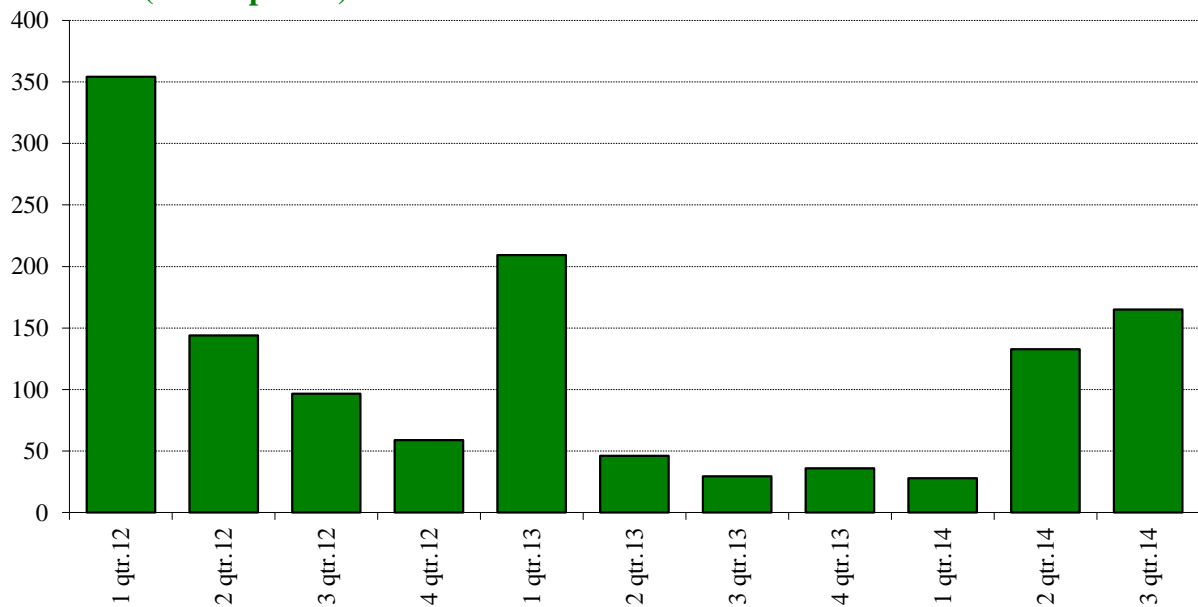
Figure 44

Volume and interest rates on deposits attracted by the National Bank (for the period)

Source: National Bank of the Republic of Kazakhstan

In the third quarter of 2014, the volume of outstanding liabilities of the National Bank on bank deposits increased. As of the end of September 2014, the volume of outstanding balances on deposits of banks with the National Bank amounted to KZT 165.0 bln., exceeding the volume at end-June 2014 by 24.4% (Figure 45).

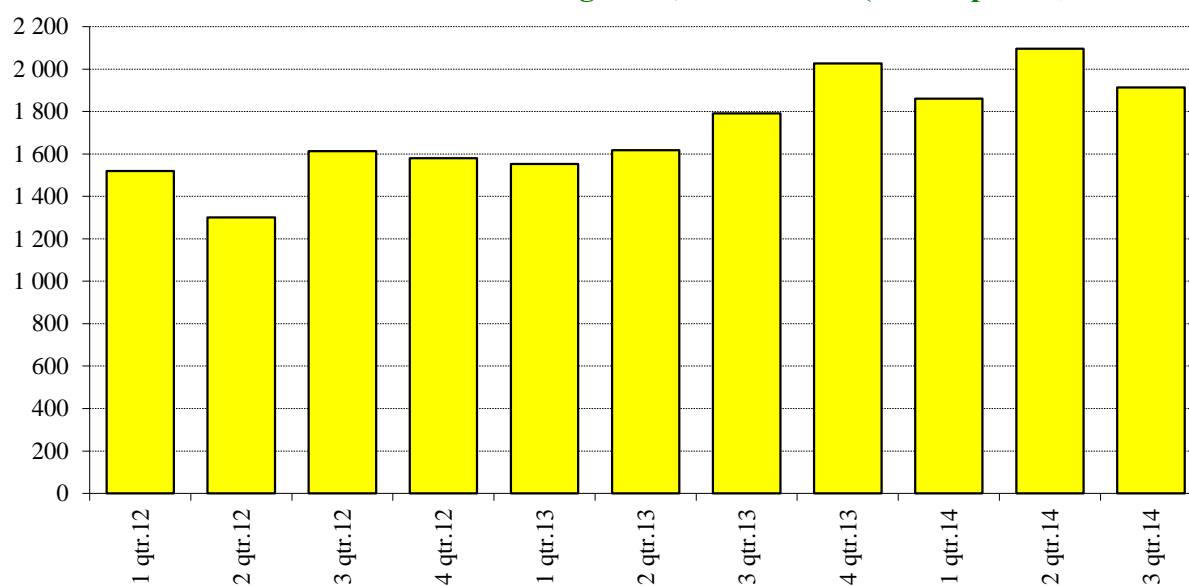
Figure 45

Volume of outstanding liabilities of the National Bank on deposits attracted from banks, KZT bln. (at end-period)

Source: National Bank of the Republic of Kazakhstan

The total volume of refinancing loans in the third quarter of 2014 amounted to KZT 1.9 trln. The volume of these operations decreased by 8.7% as compared to the previous quarter (Figure 46).

Figure 46

Volume of the National Bank's refinancing loans, KZT billion (for the period)

Source: National Bank of the Republic of Kazakhstan