

National Bank
National Bank
of the Republic of Kazakhstan

Inflation Report
for the Second Quarter 2011

Table of Contents

Table of Contents	2
Basic Terms and Definitions	4
List of Figures and Tables	6
Summary	8
Evaluation of the Inflation Forecasts for the Second Quarter 2011	8
Inflation Forecast for 2011	9
1. Inflationary Processes	11
1.1. Consumer Prices	11
1.2. Core Inflation	12
1.3. Prices in the Real Sector of the Economy	13
1.3.1. <i>Prices in the Industry</i>	13
1.3.2. <i>Prices in Agriculture</i>	14
1.3.3. <i>Enterprise Monitoring</i>	15
2. Inflation Factors	17
2.1. Aggregate Demand	17
2.1.1. <i>Individual Consumption and Investment Demand</i>	17
2.1.2. <i>Government Consumption</i>	19
2.1.3. <i>External Sector</i>	20
2.2. Production	25
2.3. Labor Market	26
2.3.1. <i>Employment and Unemployment</i>	26
2.3.2. <i>Wages and Productivity</i>	28
3. Money Supply	30
3.1. Monetary Aggregates	30
3.1.1. <i>Reserve Money</i>	30
3.1.2. <i>Money Supply</i>	31
3.1.3. <i>Cash in Circulation</i>	32
3.2. Financial Market	32
3.2.1. <i>Deposits of Residents</i>	32
3.2.2. <i>Credits to the Economy</i>	34
3.2.3. <i>Bank Assets and Liabilities</i>	37
3.2.4. <i>Financial Market Rates</i>	40
4. Monetary Policy Instruments and Operations	42
4.1. Interventions in the Domestic Foreign Exchange Market	44

4.2. Minimum Reserve Requirements	45
4.3. Open Market Operations.....	46
4.4. Standing Facilities	47

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 **Enterprise Monitoring**, 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 proceeds, non-tax proceeds, 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 point (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 on 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 on 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.

List of Figures and Tables

Figures

- Figure 1. Actual and forecasted inflation in 2011
- Figure 2. Dynamics of quarterly inflation and its components
- Figure 3. Dynamics of annual inflation and its components
- Figure 4. Dynamics of quarterly inflation and core inflation
- Figure 5. Dynamics of annual inflation and core inflation
- Figure 6. Dynamics of the producer price index
- Figure 7. Dynamics of the agricultural price index
- Figure 8. Diffusion indices for changes in the demand and prices
- Figure 9. Contribution of components of aggregate demand to growth in GDP
- Figure 10. Dynamics of personal spending and income
- Figure 11. Dynamics of spending on investments in fixed capital
- Figure 12. Execution of the state budget
- Figure 13. Dynamics of world prices for metals
- Figure 14. Dynamics of world prices for oil (Brent), and wheat (Canada)
- Figure 15. Current account balance
- Figure 16. Indices of real exchange rates of the Tenge
- Figure 17. Dynamics of the nominal exchange rate of the Tenge versus the U.S. dollar
- Figure 18. Dynamics of the official exchange rate of the Tenge versus the Euro and the Russian ruble
- Figure 19. Contribution of key sectors of the economy to growth in real GDP
- Figure 20. Structure of the economically active population
- Figure 21. Actual unemployment rate
- Figure 22. Dynamics of labor productivity and real wages
- Figure 23. Dynamics of monetary aggregates
- Figure 24. Dynamics of money multiplier and its components
- Figure 25. Dynamics of deposits and interest rates
- Figure 26. Dynamics of the change in deposits of legal entities
- Figure 27. Dynamics of the change in deposits of individuals
- Figure 28. Dynamics of credits to the economy and interest rates
- Figure 29. Dynamics of credits to legal entities
- Figure 30. Dynamics of credits to the population
- Figure 31. Dynamics of bank assets
- Figure 32. Structure of bank assets
- Figure 33. Dynamics of bank liabilities
- Figure 34. Structure of bank liabilities
- Figure 35. Dynamics of the KazPrime index
- Figure 36. Dynamics of rates on REPO operations
- Figure 37. Balance of the National Bank's operations in the domestic market
- Figure 38. Boundaries of the National Bank's interest rates band
- Figure 39. Balances of correspondent accounts with the National Bank
- Figure 40. Volume of trading in the domestic exchange market
- Figure 41. Coefficient of the National Bank's participation in the Kazakhstan Stock Exchange
- Figure 42. Compliance with minimum reserve requirements
- Figure 43. Volume of placed short-term notes and their yield
- Figure 44. Short-term notes in circulation
- Figure 45. Volume of deposits and interest rates on deposits attracted by the National Bank

Figure 46. Volume of outstanding liabilities of the National Bank on deposits attracted from banks

Figure 47. Volume of the National Bank's refinancing operations

Figure 48. Volume of outstanding liabilities on the National Bank's refinancing operations

Tables

Table 1. Change in price indices and terms of trade

Table 2. Dynamics of changes in the National Bank's assets and liabilities

Table 3. Dynamics of changes in the money supply

Table 4. Dynamics of changes in deposits of residents

Summary

In Q2 2011 inflation was at 1.3% (in Q2 2010 – 1.4%), at end-June 2011 the annual inflation made up 8.4% (in December 2010 – 7.8%).

The buildup of inflationary processes in Kazakhstan in the 2nd quarter of 2011 occurred against the minimum impact of monetary factors. So, the money supply growth in April-June was 4.9%, reserve money expanded by 2.8%.

The main factors for the inflation growth in Q2 2011 were unstable situation in the global commodity markets accompanied by the growth in prices including for major items of Kazakhstani export, steady growth in the income of the population, buildup of inflationary expectations associated with the increase in wages to the public sector employees from July 1, 2011.

Moreover, the increased business activity in the economy is also conducive to persistent inflationary pressure in the economy. In 2011 the Kazakh economy has been demonstrating quite high development rates. So, during Q1 2011 the real GDP growth accounted for 6.8%. The output growth was observed in virtually all industries including mining and manufacturing industry, trade, transportation, communications and construction.

The National Bank is taking actions pursuant to the Monetary Policy Guidelines for 2011 aimed at ensuring the price stability, stability of the Tenge exchange rate and stability in the country's financial sector.

Given some acceleration of inflation in 2011 as well as with a view to influence the inflationary expectations, the National Bank made the decision to increase the official refinancing rate to 7.5% from March 9, 2011. In Q2 2011 the official refinancing rate as well as interest rates on bank deposits with the National Bank remained unchanged.

From May 31, 2011 the minimum reserve requirements on the bank domestic liabilities were increased to 2.5% and on other bank liabilities – to 4.5% (previously – 1.5% and 2.5%, respectively).

As part of its effort to ensure the domestic currency stability, the National Bank monitors the situation with the exchange rate of the Tenge on an ongoing basis. From the time of transition to the managed floating exchange rate regime of the Tenge on February 28, 2011, the situation in the domestic foreign exchange market remains stable alongside with insignificant appreciation of the Tenge versus the US Dollar.

The National Bank regulates short-term money market liquidity by issuing short-term notes and taking deposits from banks. The volumes of these operations in Q2 2011 remained high. Also, the National Bank provides refinancing loans to banks to support their current liquidity, with the demand for such loans remaining limited.

Evaluation of the Inflation Forecasts for the Second Quarter 2011

The actual inflation rate (1.3%) in Q2 2011 was lower than the forecast (1.4-1.6%), which was published in the previous issue of the Inflation Report. Over the entire period the inflation has been lower than the forecast.

The main increase in prices in Q2 2011 was in the foodstuff and non-food items. In their structure, the increased prices for cereals including buckwheat and millet, meat products, sugar and fuel and lubricants should be pointed out. At the same time, there was a decrease in prices for fruits and vegetables and eggs. When analyzing the dynamics of the past years one may observe that the decrease in prices for these items is typical for this period since it's caused by the seasonality factor. The growth in prices for sugar as well as cereals occurred because of unstable situation in the global commodity markets.

The main contribution to the inflation buildup on the part of non-food items in April-June 2011 fell on fuel and lubricants. The key factor for the increase in prices for these commodities was the situation in the global commodity markets. The impact on the part of paid services was insignificant during Q2 2011.

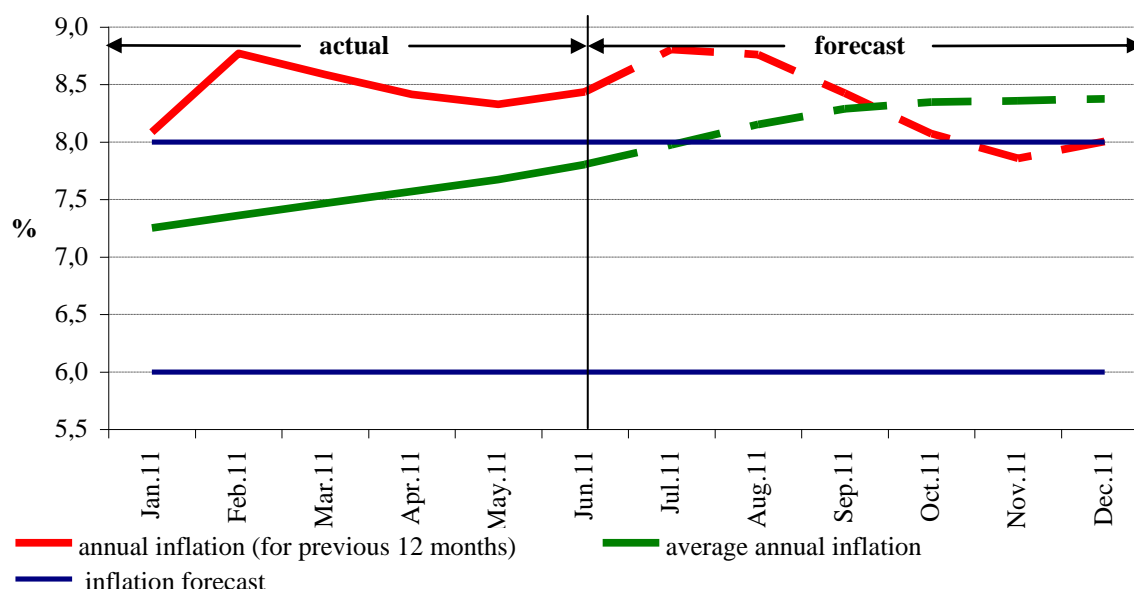
The actual annual inflation in June 2011 (8.4%) was lower than the forecast (8.5-8.7%) published in the previous issue of the Inflation Report.

Inflation Forecast for 2011

Pursuant to the Monetary Policy Guidelines of the Republic of Kazakhstan for 2011, the main goal of the National Bank was to keep inflation within 6-8% (Figure 1).

Figure 1

Actual and forecasted inflation in 2011



Source: National Bank of the Republic of Kazakhstan

The inflationary processes in 2011 will be building up amidst unbalanced aggregate demand and supply. This will happen against positive trends in the country's economic development, persisting high prices in the global commodity and foodstuff markets, the increase in wages, retirement benefits, allowances and other social payouts from the budget. Further, a low level of competition in individual markets of goods and services will have a negative impact on the inflationary processes buildup in 2011.

Alongside with that, given the minimal impact of monetary factors on the inflation, monetary policy measures might appear insufficient to maintain price stability in the Kazakh consumer market. In these circumstances the National Bank does not rule out the possibility of increasing the target band for 2011. Meantime, the monetary policy will be adequate to the developing macro-economic conditions. Money supply in the economy will be maintained at the level corresponding to the economic growth.

The inflation forecast for Q3 2011 is 0.6-0.8% (in Q3 2010 the actual inflation was 0.8%). On the whole, this level is in line with the inflation trends of July-September, which were typical of the past years. Such expectations are associated mainly with the fact that the inflation in the nearest future will be building up under the impact of the seasonality factor as well as with the increased inflationary expectation and increased customer demand of the population in view of the increase in wages and benefits from the budget in July 2011.

Alongside with that, a decrease in prices for certain goods and services (eggs, dairy products and fruits and vegetables) is expected. Some increase in prices for fuel and lubricants as well as for educational services, clothes and footwear, stationery, printed materials and books is expected because of the new academic year.

At end-September 2011 the annual inflation is expected to be at 8.2-8.4%.

The inflation forecast for Q4 2011 is 1.8-2.0% (in Q4 2010 the actual inflation was at 2.4%), which corresponds to the annual inflation of 7.9-8.1% at end-December 2011.

As a rule, the situation in the consumer market in the last months of a year is characterized by the increase in prices. This is related to the seasonality factor and revived consumer demand because of holidays. Prices for such goods and services as fruits and vegetables, eggs, dairy and meat products, clothes and footwear, and certain types of utilities are expected to grow in October-December 2011.

In addition, a remaining stable upward trend in the world prices for oil in the long term will put pressure on the price formation for gasoline and fuel and lubricants in the country. Given that such commodities are used in the production of certain goods and services, this would cause the growth in the cost of production and, thus, the increase in the final cost of goods and services.

1. Inflationary Processes

1.1. Consumer Prices

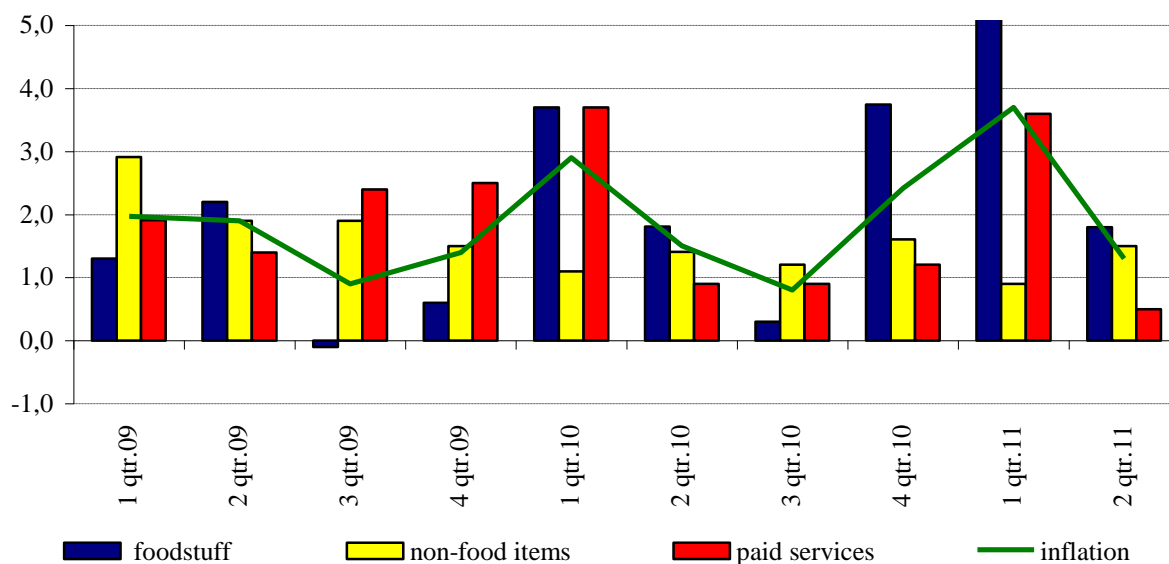
In Q2 2011 inflation was accelerating at a slower pace as compared to Q1 2011, with insignificant slowdown of inflation as compared to Q2 2010. In April-June 2011 inflation was at 1.3% (in January-March – 3.7%).

The slowdown in the inflation rates in Q2 2011 was caused by the slowdown in the growth of prices for foodstuffs and paid services to the population.

The price of foodstuffs increased by 1.8%, the price of non-food items – by 1.5% and the price of paid services – by 0.5% (Figure 2).

Figure 2

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



Source: Agency of Statistics of the Republic of Kazakhstan

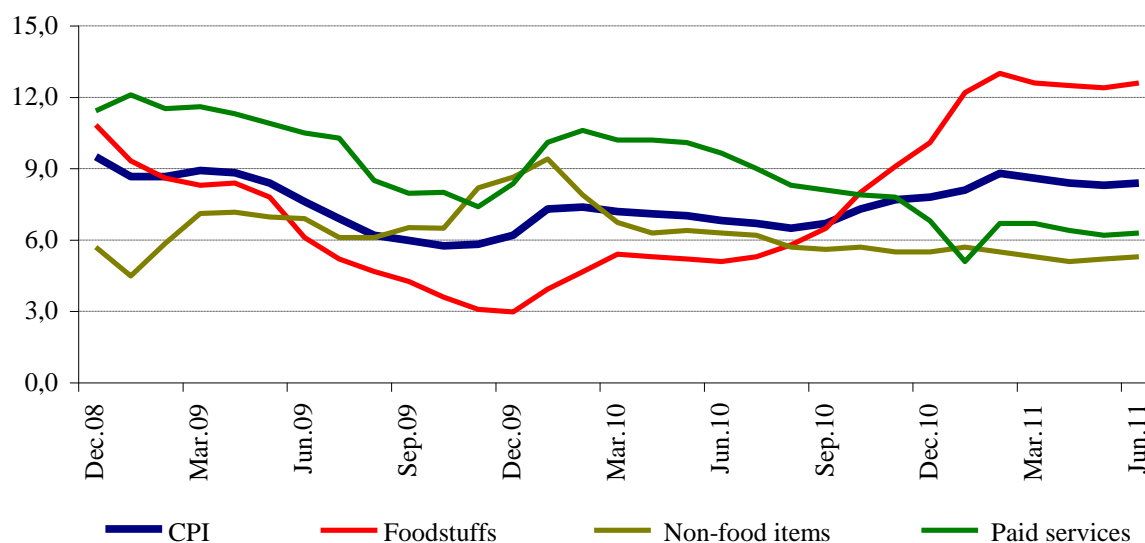
The slowdown in the price growth in Q2 2011 occurred in such goods as cereals – from 38.6% in Q1 2011 to 14.0%, sugar – from 12.0% to 2.5%, wheat flour – from 7.7% to 3.6%, meat and meat products – from 6.9% to 3.7%, fruits and vegetables – from 16.4% to the decrease in prices by 0.3%. In the group of paid services to the population the slowdown in the price growth occurred in the sector of electric energy – from 9.4% in January-March 2011 to 0.0% in April-June 2011, for cold water – from 4.5% to 0.2%, for legal services – from 4.4% to 0.0%, for hot water – from 3.1% to the decrease in prices by 1.9%, for district heating – from 3.6% to the decrease in prices by 0.2%, for communication services – from 9.7% to the decrease in prices by 0.2%.

The speed up in the price growth in the group of non-food items should be also noted. The rates of growth in prices for gasoline and diesel fuel – from the price growth by 2.6% and 2.4% in Q1 2011 to the growth by 11.5% and 12.1%, respectively, in Q2 2011.

At end-June 2011 the annual inflation amounted to 8.4% (in December 2010 – 7.8%). The acceleration of annual inflation rates in June 2011 was caused by the increase in prices for foodstuff by 12.6% (by 10.1%). Prices of non-food items increased by 5.3% (by 5.5%), paid services – by 6.3% (by 6.8%) (Figure 3).

Figure 3

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



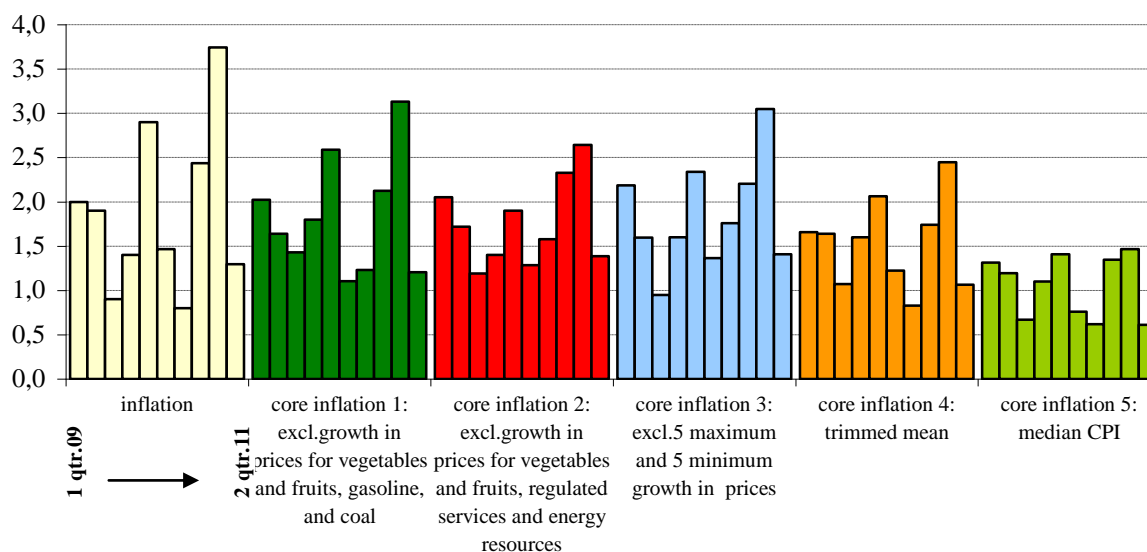
Source: Agency of Statistics of the Republic of Kazakhstan

1.2. Core Inflation

In Q2 2011 indicators of core inflation alike the headline inflation demonstrated lower growth rates as compared to previous quarter. Alongside with that, only the indicators of core inflation-4 and core inflation-5 were at a lower level as compared to the respective quarter of 2010 (Figure 4).

Figure 4

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



Source: Agency of Statistics of the Republic of Kazakhstan

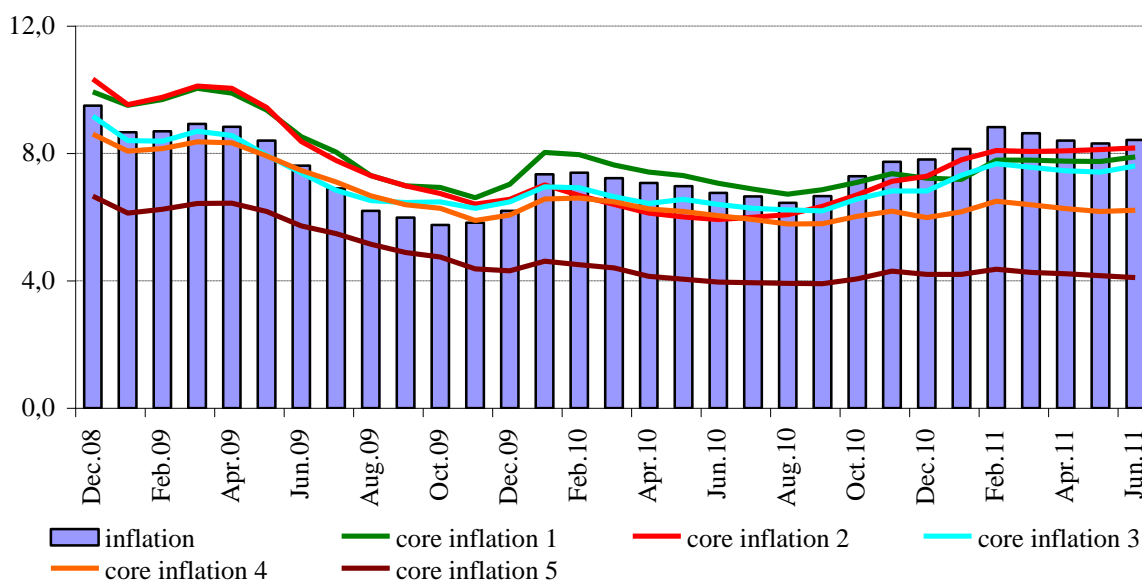
In April-June 2011 all core inflation indicators in annual terms demonstrated multi-directional dynamics. Core inflation-5 in Q2 2011 was slowing down. The rest of the core

inflation indicators, after some stabilization in May, started to gradually accelerate in June 2011. In doing so, all core inflation indicators at end-June 2011 have been at a lower level as compared to the headline inflation.

In June 2011 all core inflation indicators in annual terms, except core inflation-5, have been at a higher level as compared to those in December 2010. This fact is an indicator of the remaining inflationary background in the economy, with insignificant impact of monetary factors on the inflation (Figure 5).

Figure 5

**Dynamics of annual inflation and core inflation
(as % of the respective quarter of the previous year)**



Source: Agency of Statistics of the Republic of Kazakhstan

1.3. Prices in the Real Sector of the Economy

1.3.1. Prices in the Industry

In Q2 2011 the producer prices have increased by 7.0% (in Q2 2010 – the growth by 2.5%). The cost of output appreciated by 7.6%, at the same time the price of interim consumption products increased by 8.5%, production means – by 3.1%, consumer goods – by 1.2%. The prices for production services increased by 0.8%.

In April-June 2011 the growth rate of producer prices in the mining industry slowed down. After the growth by 11.1% in Q4 2010, and by 16.1% in Q1 2011, the growth made up 9.6% in Q2 2011 (in Q2 2010 – the growth by 2.3%).

The growth rates of the cost of energy resources in Q2 2011 as compared to the previous quarter slowed down from 16.0% to 10.5% (in Q2 2010 – the decrease by 1.5%). In the composition of energy resources, the cost of oil extraction increased by 12.3% (in Q2 2010 – the decrease by 2.3%), the cost of gas condensate increased by 8.5% (the growth by 6.5%).

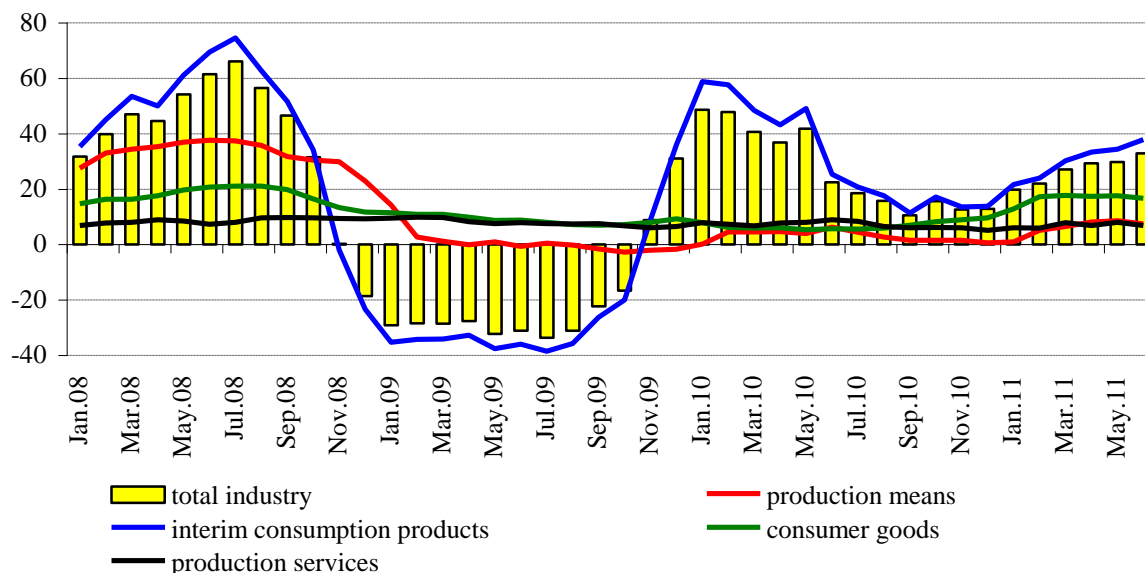
The growth rates of prices in the manufacturing industry in Q2 2011 as compared to the previous quarter slowed down from 6.2% to 2.6% (in Q2 2010 – the growth by 2.9%). Prices in the metallurgical industry increased by 2.1%, cost of food production increased by 0.8%, oil refined products increased in price by 6.7%.

There was a slight growth in prices for electric energy, gas and vapor supply and air conditioning in Q2 2011, which made up 0.4% (in Q2 2010 – the growth by 0.9%).

In June 2011 the growth in prices in the industry in annual terms (June 2011 versus June 2010) amounted to 32.9% (Figure 6).

Figure 6

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



Source: Agency of Statistics of the Republic of Kazakhstan

The cost of output increased by 35.1% in annual terms, including the interim consumption products – by 37.9%, consumer goods – by 16.7%, production means – by 7.4%. The cost of production services increased by 6.9%.

1.3.2. Prices in Agriculture

In Q2 2011 prices for agricultural production realized across all channels increased by 1.5% (in Q2 2010 – the decrease by 2.0%). The dynamics of prices in agriculture was impacted by the increase in the price for plant production.

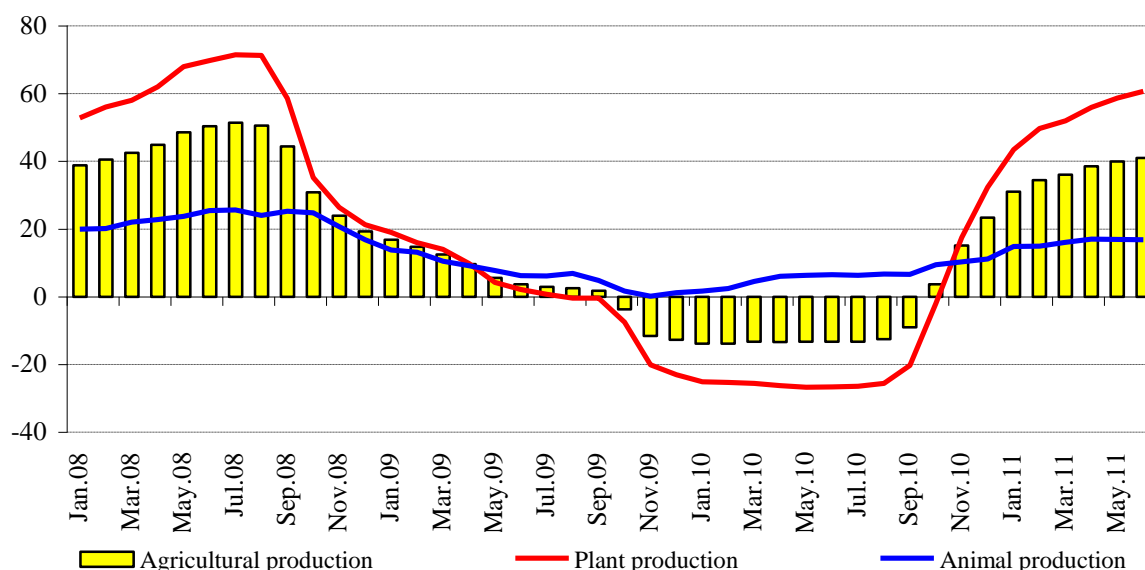
In April-June 2011 the cost of plant production increased by 3.1% (in Q2 2010 – the decrease by 2.5%), alongside with that in the composition of plant production prices for grain cultures increased by 13.4%, the price of vegetables grew by 2.5%, and for potatoes – by 0.7%.

The animal products in Q2 2011 became cheaper by 0.8%, whereas in Q1 2011 the growth reached 7.7%, and in Q2 2010 the decrease accounted for 1.4%. In April-June 2011 the prices for meat and poultry increased by 4.2%, the price for unpasteurized milk decreased by 5.0%, and eggs became cheaper by 19.1%.

In June 2011 prices for agricultural products in annual terms increased by 41.0%. Alongside with that, the plant production increased by 60.7%, the price for animal products grew by 16.8% (Figure 7).

Figure 7

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



Source: Agency of Statistics of the Republic of Kazakhstan

1.3.3. Enterprise Monitoring

In Q2 2011 the demand for final products of enterprises increased visibly. This is evidenced by the diffusion index of the demand for final products which made up 56.8 (in the first quarter – 49.6). The growth of the indicator occurred owing to the increase in the share of enterprises with increased demand for their products to 29.2% (in the first quarter – 21.8%) and the decrease in the share of enterprises that noted the decrease in the demand to 15.5% (in the first quarter – 22.5%).

The growth in demand occurred in all sectors of the economy. The highest growth rates are observed in the manufacturing and mining industries and the lowest growth rates – in such industries as “hotels and restaurants” and “real estate operations, rent and services to enterprises”.

In Q3 2011 the demand for final products is expected to be growing at the same rates: the diffusion index of the change in the demand went up to 57.9. The increased demand for final products is anticipated by 23.5% of interviewed enterprises and the decreased demand – by 7.6% only. The highest growth in the demand is expected by enterprises in the manufacturing and mining industries.

The growth rates of prices for final products of enterprises have somewhat decreased in Q2 2011 as compared to the previous quarter. The diffusion index of the change in prices for final products fell to 60.4 (in the first quarter – 62.7) because of the decreased number of enterprises that noted the growth in prices to 26.4% (in the first quarter – 30.5%).

The growth in prices for final products is noted by enterprises in the majority of industries, with the highest increase in the price growth rates in the trade industry. At the same time, there was a visible slowdown in the price growth rates in the sectors such as “agriculture”, “real estate operations, rent and services to enterprises” and “production and distribution of electric energy, gas and water”.

In Q3 2011 some decrease in the price growth rates is anticipated: the diffusion index of the change in prices for final products made up 59.1. The decrease in the price growth rates for final products is expected by enterprises in the majority of industries, other than such

industries as “hotels and restaurants”, “real estate operations, rent and services to enterprises” and “production and distribution of electric energy, gas and water” where the price growth rates will increase, according to the expectations of enterprises.

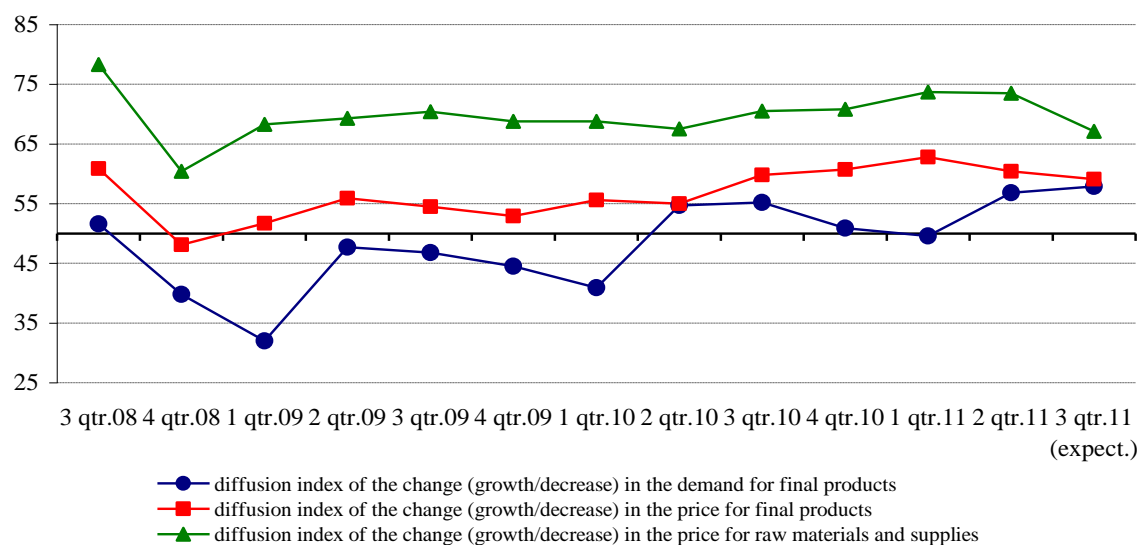
In Q2 2011 prices for raw materials and supplies retained high growth rates: diffusion index of the change in prices for raw materials and supplies was 73.5 (in the first quarter – 73.7). The increased price growth rates were observed in the construction sector and in the “transport and communication” sector, and the decreased price growth rates – in all sectors of the industry. In the sample as a whole the number of enterprises that noted the growth in prices for raw materials and supplies amounted to 55.7%, and only 1.5% of enterprises noted the decrease in prices.

For Q3 2011 the diffusion index of the change in the price for raw materials and supplies fell down to 67.1, which means the slowdown in the price growth rates. The indicator decreased because of the decreased share of enterprises anticipating the price growth.

Thus, judging from the dynamics of the relevant diffusion indices, anticipations of the enterprises about Q3 2011 are associated with a slight increase in the demand for final products and a slowdown in the growth of prices for final products and raw materials and supplies (Figure 8).

Figure 8

Diffusion indices of the change in demand and prices



Source: National Bank of the Republic of Kazakhstan

2. Inflation Factors

2.1. Aggregate Demand

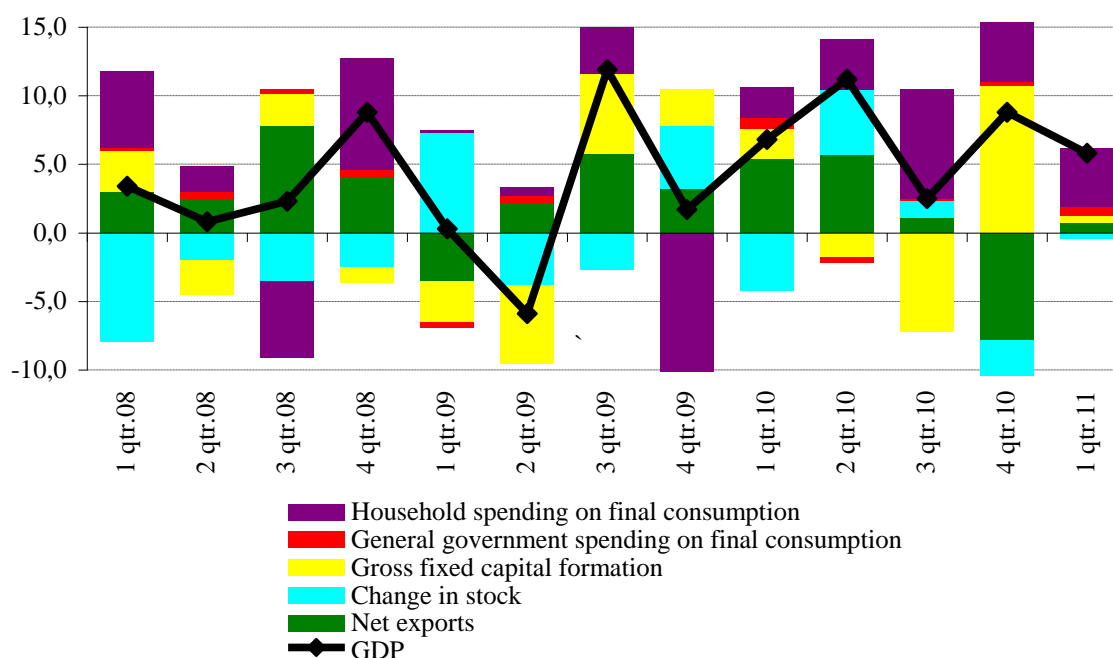
In the first quarter 2011 the GDP based on the final consumption method as compared to the respective period of 2010 increased in real terms, according to estimate, by 5.8% (the growth in Q4 2010, according to estimate, accounted for 7.0%, in the first quarter 2010 – 6.8%).

After the peak of growth in Q4 2010, the decrease in the household spending on final consumption as well as in the gross fixed capital formation in Q1 2011 caused the slowdown in the GDP growth rates. On the whole, gross formation increased, according to estimates, by 0.3%, spending on final consumption increased by 7.7%, net exports increased by 5.3%.

Net exports' contribution to the GDP growth was positive and accounted for (+)0.7%, gross fixed capital formation made up (+)0.5%, households consumption (+)4.2%, and change in stock (–)0.4% (Figure 9).

Figure 9

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



Source: Information by the Agency of Statistics of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

2.1.1. Individual Consumption and Investment Demand

Household spending on final consumption in the first quarter 2011 increased versus the respective period of 2010 by 7.5% (in Q4 2010 – the growth by 19.3%).

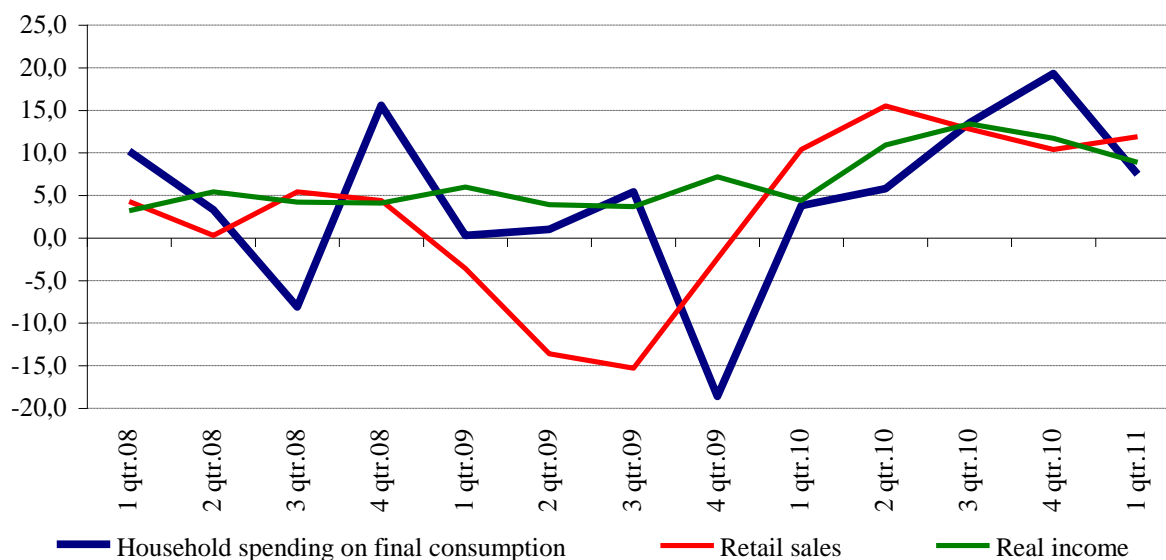
Acceleration in the growth rate of per capita income in nominal terms to 18.2% (in the first quarter 2010 – the growth by 12.0%), and in real terms – to 8.9% (the growth by 4.4%) also affected retail sales, where the growth rate accelerated to 11.9% (in the first quarter of 2010 – the growth by 10.4%).

High level of retail sales had a significant impact on the improvement of one of the key GDP components by the aggregate demand method, namely the growth in the household

spending on final consumption, which increased by 7.5%, whereas in the first quarter of 2010 the growth accounted for 3.8% only. (Figure 10).

Figure 10

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



Source: Information by the Agency of Statistics of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

During Q1 2011 the population had more preference to buying in the markets where selling volumes increased by 15.7%, whereas sales in the shops and shopping malls, whose percentage in the total volume of retail sales is significant and accounts for 54.5%, increased by 9.0%.

Such growth was ensured by the 30% increase in retirement benefit payments and scholarships to students, the increase in the amount of basic retirement benefit payments as well as government social and welfare benefits from January 1, 2011.

The volume of spending on gross capital formation, after its significant decline in the first quarter of 2010 by 11.1%, in the first quarter of 2011 increased versus the respective period of 2010 by 0.3%, thus making positive contribution to the growth in the GDP formation of (+)0.1%.

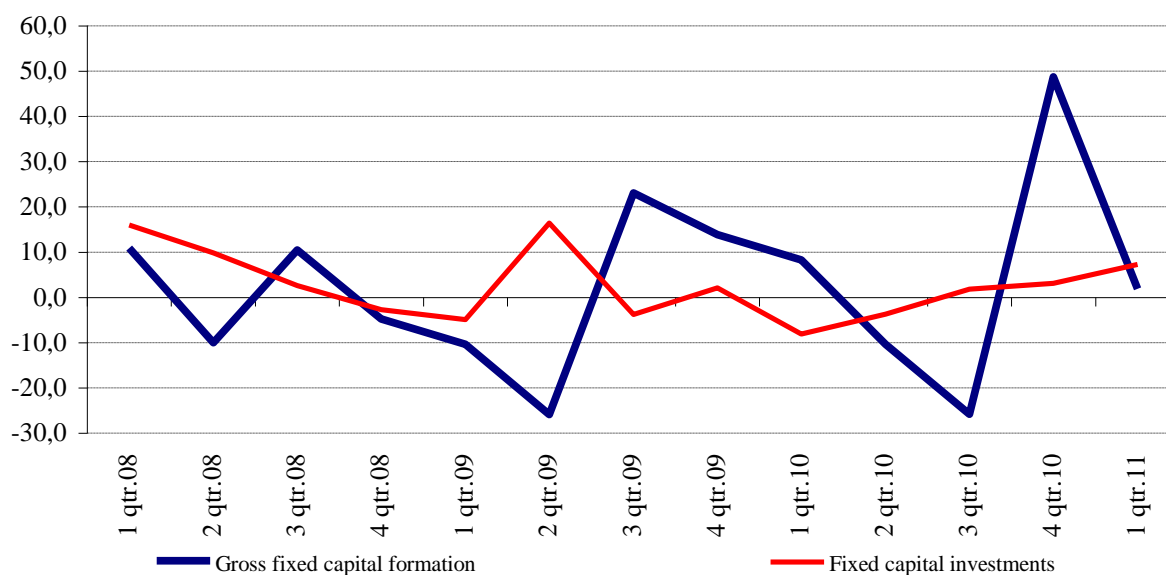
In the structure of gross formation, gross fixed capital formation increased by 1.9%, making positive contribution to the GDP growth of (+)0.5%, however the second component i.e. the change in stock has negatively affected the growth in gross formation reducing the contribution to the GDP growth by (-)0.4%.

However, this negative effect was fully neutralized by significant positive effect achieved by the first component, which resulted in the growth of gross formation on the whole.

The increased business activity of enterprises in the first quarter 2011 contributed to the growth in gross formation resulting in the increase of the volume of investments in fixed capital by 7.3% (Q1 2010 – the decrease by 7.3%) (Figure 11).

Figure 11

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



Source: Information by the Agency of Statistics of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

2.1.2. Government Consumption

Spending on final consumption by general government in the first quarter of 2011 as compared to the respective period of 2010 increased by 8.4% (in Q4 2010 – the growth by 3.5%).

In general, during Q1 2011 the state budget spending was financed in the amount of KZT 1132.6 bln. or 23.1% of GDP. As compared to Q1 2010 the increase made up 12.4%.

Current state budget expenditures totaled to KZT 897.5 bln., which is by 31.4% greater than in the first quarter of 2010. Within the current expenditures costs related to the payment of interest on foreign loans, service purchases as well as other current expenditures and current transfers to natural persons increased the most. In the composition of capital expenditures all items excluding the item “purchases of land and intangible assets” demonstrated decrease which resulted in the decrease of capital expenditures by 26.9%. Purchases of land and intangible assets demonstrated increase by 5.8 times whereas the fixed capital formation decreased by 24.3% as compared to the same period of 2010.

During January-March 2011 state budget revenues amounted to KZT 1245.5 bln. or 25.4% of GDP, which is by 15.5% greater than in January-March 2010. In the structure of the state budget revenues two items are still prevailing: tax revenues – 81.8% (in the first quarter 2010 – 60.7%), official transfers – 13.9% (36.7%). High percentage 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 150.0 bln.

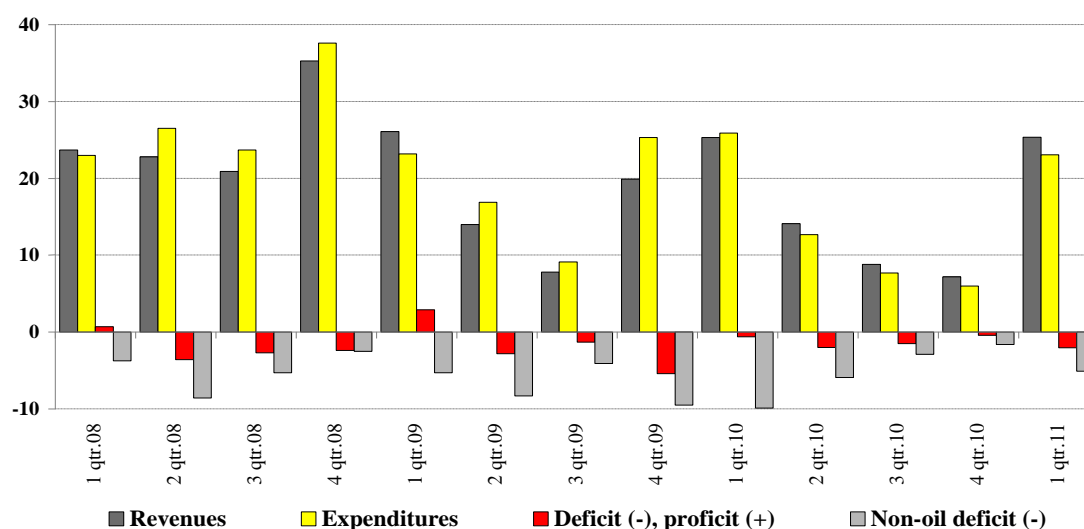
As a whole, in the first quarter 2011 tax revenues increased by 47.9% as compared to Q1 2010. The growth occurred due to the increased revenues in absolute terms from value-added tax, corporate income tax and revenues from the use of natural and other resources by KZT39.3 bln., 26.3 bln. and 26.0 bln., respectively.

In the first quarter 2011 as compared to Q1 2010 non-tax revenues increased by 2.2 times whereas volume of received transfers and fixed capital sales decreased by 58.3% and 14.1%, respectively.

Since the expenditures were in excess of revenues to the state budget in the first quarter 2011 the deficit of KZT99.6 bln. showed up whereas in the respective quarter of 2010 the deficit was KZT22.7 bln. (Figure 12). It should be noted that without the guaranteed transfer of KZT 150.0 bln. to the republican budget from the National Fund, Q1 2011 would have ended with the non-oil deficit of KZT249.6 bln.

Figure 12

Execution of the state budget, % of GDP



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

In the first quarter 2011 the Ministry of Finance borrowed KZT154.4 bln., mainly by issuing government issue-grade securities. During the same period debentures were also extinguished on securities issued earlier in the amount of KZT69.2 bln. As a result, account balances of the Government of the Republic of Kazakhstan with the National Bank decreased by KZT14.5 bln.

Government domestic debt for Q1 2011 increased to KZT1753.3 bln. (35.7% of GDP), i.e. by 27.7% greater than in Q1 2010 (28.0% of GDP). The growth was secured by the issue of government long-term saving treasury obligations (MEUZHKAM), government long-term treasury obligations (MEUKAM), and government medium-term treasury obligations (MEOKAM).

The Government's external debt in the first quarter 2011 increased by 63.6% as compared to Q1 2010 (6.8% of GDP) and amounted to KZT544.9 bln. (11.1% of GDP).

2.1.3. External Sector

– World prices

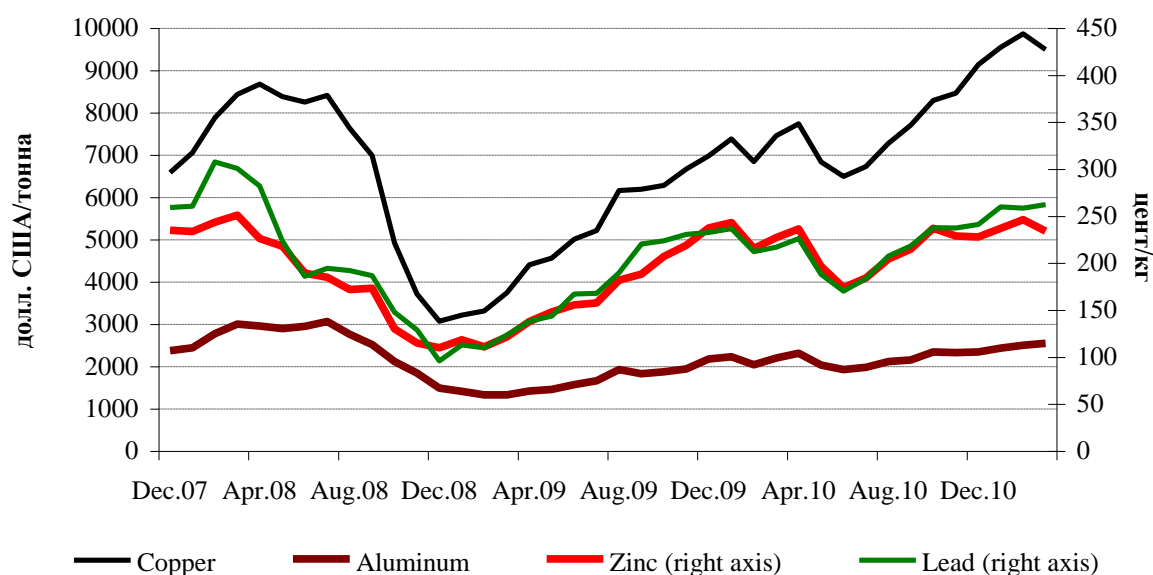
In the first quarter 2011 the situation in the global commodity markets remained unstable, which was accompanied by volatility of prices for certain commodities.

World prices for metals in January-March 2011 demonstrated a multi-directional dynamics. Some metals increased in price whereas the prices for some others decreased or remained stable. Prices for copper in the first quarter 2011 were volatile: the growth was interchanging with the landslide of prices. On the whole, during the period prices grew by 11.6% and were at US\$9642.3 per ton on average during the period. Prices for aluminum demonstrated a steady upward trend. On the overall, in Q1 2011 the prices grew by 6.7% and

amounted to US\$2501.3 per ton. World prices for lead in January-March 2011 increased by 9.0%, amounting to 260.4 cents per kg on average during the period. Prices for zinc increased by 3.4% with an average price of 239.3 cents per kg during the period (Figure 13).

Figure 13

Dynamics of world prices for metals

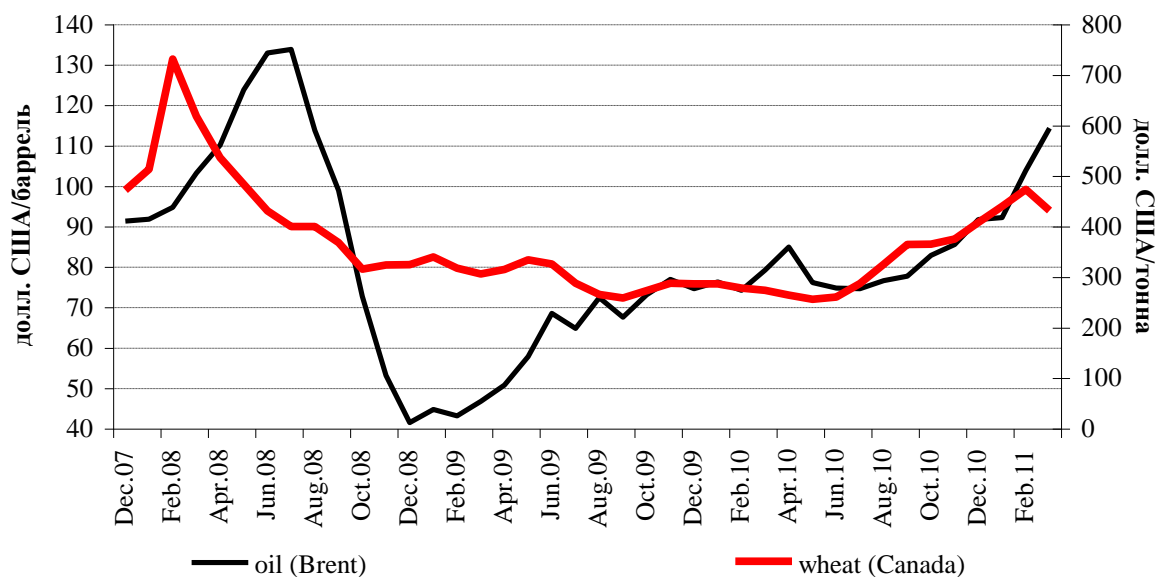


Source: World Bank

In the first quarter 2011 an upward trend for oil prices in the global market continued. As a whole, during Q1 2011 as compared to Q4 2010 oil prices (Brent) increased by 20.9% and were at US\$104.9 per barrel on average for the period (Figure 14).

World prices for wheat, after their growth in January-February, somewhat decreased in March 2011. As a whole, during Q1 2011 the world price for wheat (Canada) increased by 17.0% and was on average at US\$449.0 per ton (Figure 14).

Figure 14

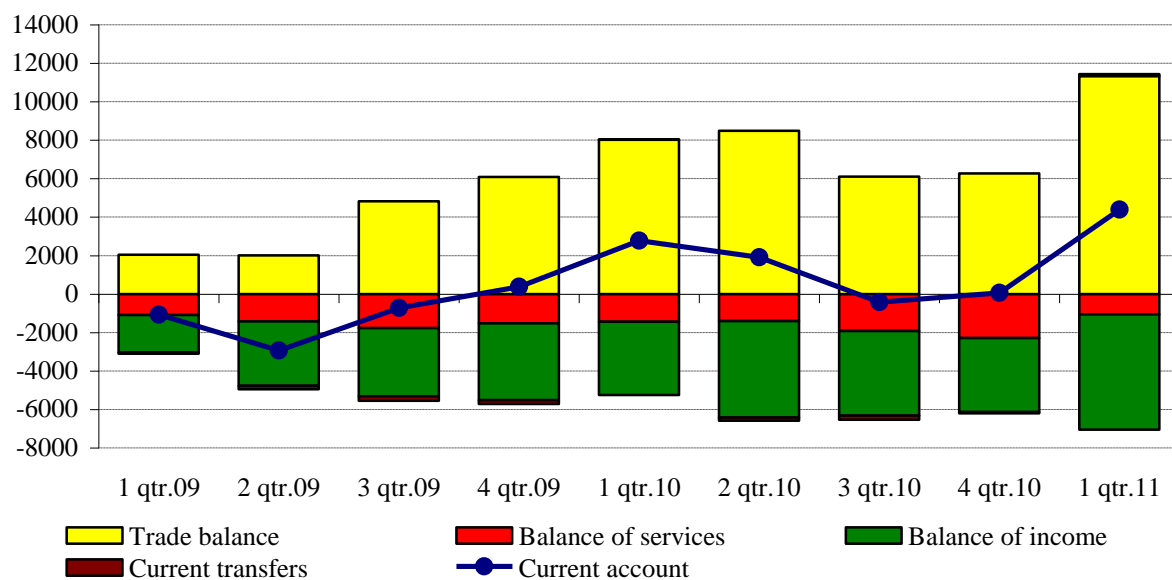
Dynamics of world prices for oil (Brent) and wheat (Canada)

Source: World Bank

– Balance of Payments

In the first quarter 2011 the current account balance was in surplus of US\$4.4 bln. or 12.4% to GDP of the respective period (Figure 15).

Figure 15

Current account balance, US\$ mln.

Source: National Bank of the Republic of Kazakhstan

Proceeds from the exports of goods in the first quarter of 2011 increased by 37.5%, and expenditures on commodity imports – by 31.8% as compared to Q1 2010. A positive trade balance increased by 41.4% and amounted to US\$11.3 bln. In the first quarter of 2011 the deficit in the balance of services decreased by 26.0% to US\$1.1 bln. as compared to Q1 2010, and the deficit in the income balance increased by 56.6% and amounted to US\$5.6 bln.

Net proceeds from non-residents on current transfers amounted to US\$ 97.1 mln., which exceeds the amount of transfers in Q1 2010 by 5.7 times.

The net inflow of resources on financial account operations in the first quarter of 2011 amounted to US\$3.7 bln. (in Q1 2010 – net outflow of US\$1.3 bln.). Foreign assets of residents (except for reserve assets) increased by US\$3.1 bln., which is nearly twice as the indicator of the respective period of 2010. Foreign liabilities of residents also increased by US\$6.8 bln. (the growth by US\$0.3 bln. in the first quarter of 2010).

As a result, the positive balance of payments for Q1 2011 amounted to US\$6.3 bln. (in the first quarter of 2010 – US\$4.3 bln.).

– Terms of Trade and the Real Effective Exchange Rate

In the first quarter 2011 the aggregate terms of trade index was by 33.0% higher than the respective indicator for Q1 2010. Alongside with that, the terms of trade with the Euro zone countries improved by 18.0%, and with Russia – by 16.0% (Table 1).

Table 1

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

	1 qtr.10	2 qtr.10	3 qtr.10	4 qtr.10	1qtr.11
Export prices	48.2	60.1	17.3	18.9	43.0
Import prices	9.4	12.9	4.0	7.0	7.0
Terms of trade	22.6	42.7	16.1	11.7	33.0
including:					
the Euro zone countries					
Export prices	66.0	59.9	17.9	17.9	29.0
Import prices	22.4	31.0	14.1	24.5	9.0
Terms of trade	16.6	25.2	3.7	-5.7	18.0
Export prices	23.4	33.6	-25.2	9.4	38.0
Import prices	28.5	19.1	8.9	7.5	19.0
Terms of trade	-3.7	11.0	-30.6	1.9	16.0

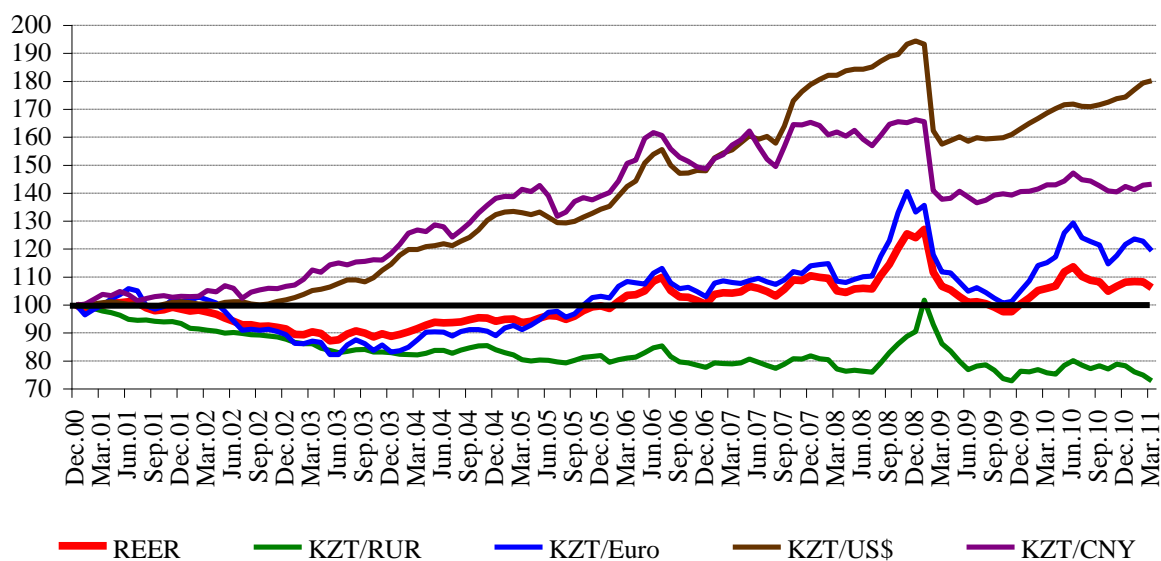
Source: National Bank of the Republic of Kazakhstan

Despite a relatively stable nominal exchange rate, the index of the real effective exchange rate of the Tenge appreciated by 0.9% in Q1 2011 as compared to the prior period. Alongside with that, the Tenge has depreciated versus the CIS currencies basket by 3.3%, and appreciated by 2.4% versus the basket of other currencies.

During Q1 2011 the Tenge appreciated in real terms against the US Dollar by 3.1% as compared to the previous period, against the Euro – by 3.7% and depreciated against the Russian ruble by 4.5% (Figure 16).

Figure 16

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



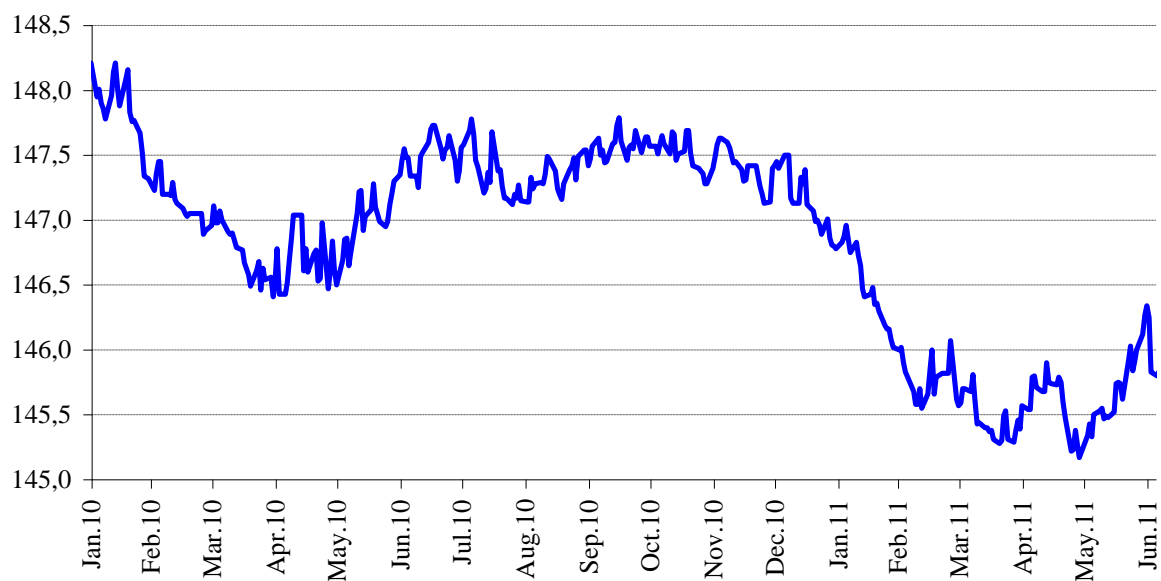
Source: National Bank of the Republic of Kazakhstan

– Nominal Exchange Rate of the Tenge

The average weighted exchange rate of the Tenge for Q2 2011 at the stock exchange was KZT145.60/1\$. The stock exchange rate at end-period was KZT145.83/1\$. Since the beginning of the year the Tenge has appreciated against the US Dollar in nominal terms by 1.1%. (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

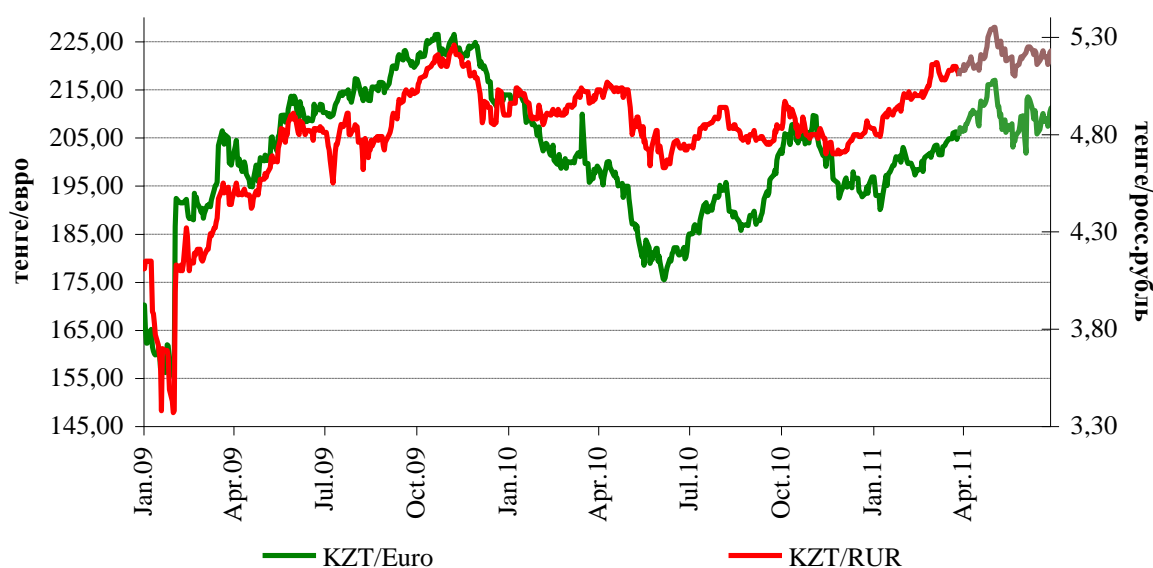
In April and May the exchange rate of the Tenge appreciated versus the US Dollar by 0.1% and in June it depreciated by 0.3%.

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.

On the whole, during Q2 2011 the official exchange rate of the Tenge versus the Euro has depreciated by 2.4%, and versus the Russian ruble – by 2.3% (Figure 18).

Figure 18

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



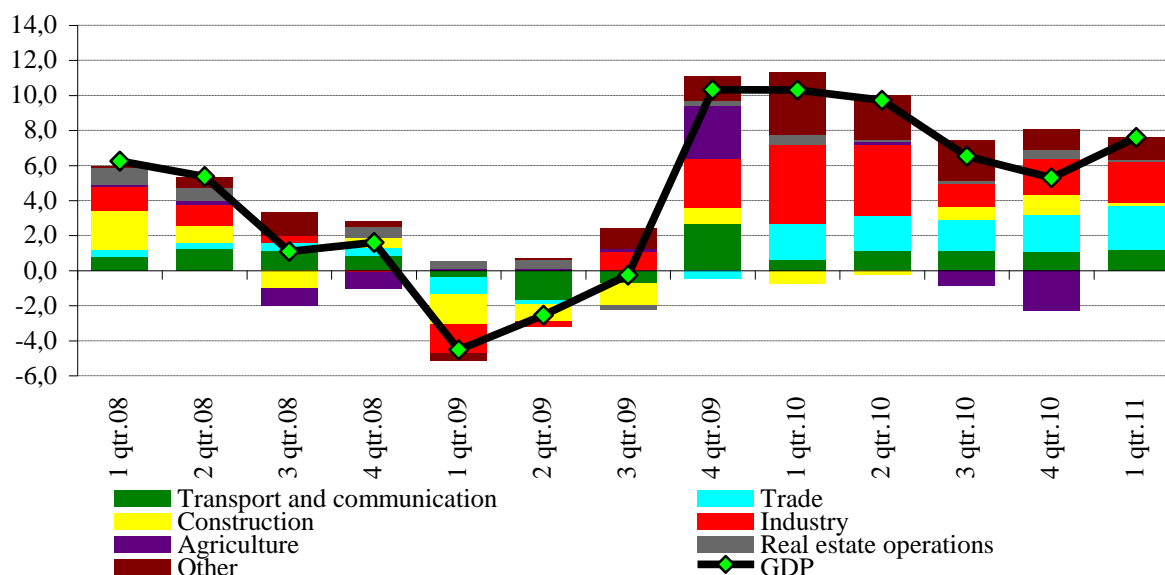
Source: National Bank of the Republic of Kazakhstan

2.2. Production

The volume of GDP output in the first quarter of 2011 amounted to KZT5162.3 bln. in current prices. Being positively influenced by the growth in production in virtually all sectors of the economy, except financial and insurance activities, the GDP in real terms increased, according to estimates, by 7.6% versus Q1 2010 (in Q4 2010 the growth amounted, according to estimates, to 5.3%) (Figure 19).

Figure 19

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



Source: Information by the Agency of Statistics of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

In the first quarter of 2011 the growth rate in the production of services accelerated to 8.1% (Q4 2010 – the growth by 10.6%), and in the production of commodities – to 5.6% (1.8%).

In the production of commodities all components demonstrated growth and especially significant growth occurred in the manufacturing industry, which showed the increase of 9.2%. The index of physical volume in the industry was 106.3%, construction – 103.0%, agriculture – 101.7%, which on aggregate resulted in positive contribution to the GDP formation of 2.6%.

In the production of services the decline in the index of physical volume in financial and insurance activities by 2.6% was fully neutralized by high growth in all other components, which resulted in positive contribution to the GDP formation at the level of 4.1%.

In the first quarter of 2011 the decrease in the volume of financial intermediation services indirectly measured which are used with a negative sign in the total volume of GDP, contributed positively to the GDP formation in the amount of 0.3%, and the growth in net taxes on products and imports increased the GDP by additional 0.7%.

2.3. Labor Market

2.3.1. Employment and Unemployment

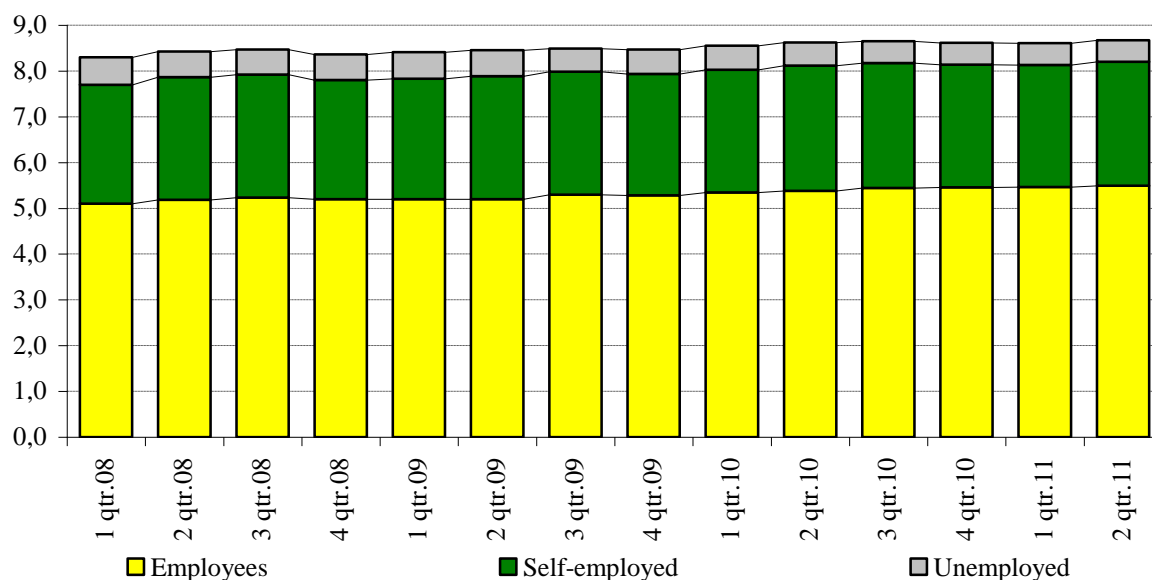
In Q2 2011 the number of people employed in the economy, according to tentative estimates, was 8.2 mln., having increased by 0.9% versus the previous period (the growth versus Q2 2010 accounted for 1.1%). At the same time, the number of employees reached 5.5 mln. (the growth by 0.6%), the number of self-employed – 2.7 mln. people (the growth by 1.5%).

In the structure of employees, 4.5 mln. individuals (82.0% of all employees) were working in public and non-public institutions, for natural persons – 0.7 mln. individuals (12.3%), at farms – 0.3 mln. individuals (5.8%).

In Q2 2011 the number of unemployed amounted to 467,000 individuals, having decreased by 1.9% as compared to the previous period and by 7.3% as compared to Q2 2010 (Figure 20).

Figure 20

The structure of economically active population, mln. individuals



Source: Agency of Statistics of the Republic of Kazakhstan

In April and May 2011 the following sectoral changes in the structural composition of employees were observed.

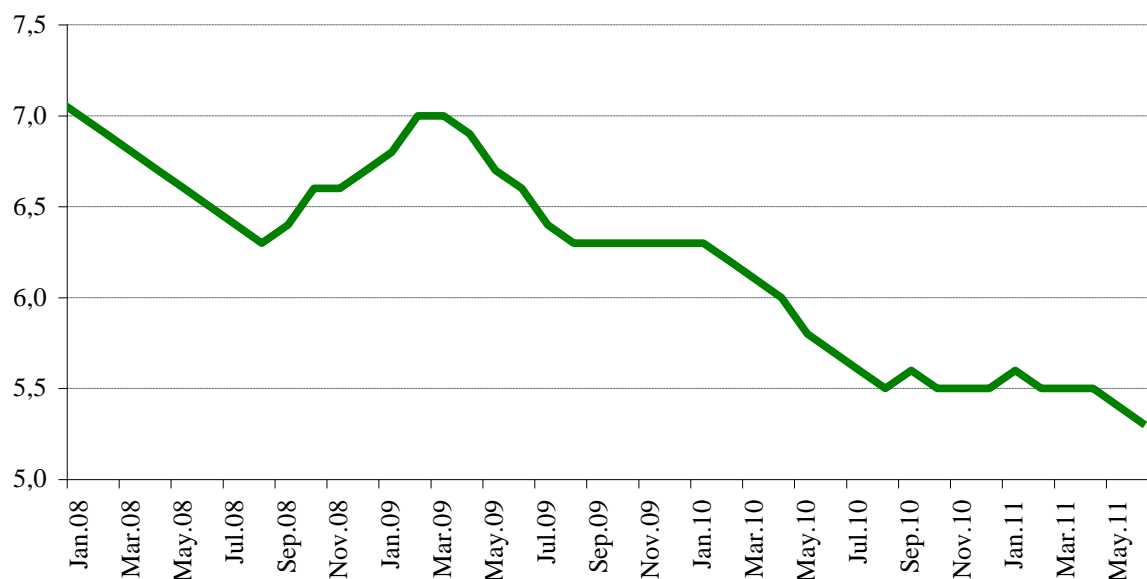
The main sectors that contributed to the growth in the employment rates, as compared to the respective period of 2010, were as follows: the industry; education; public healthcare and social services; construction, wholesale and retail trade; repair of cars and motorcycles; arts, entertainment and recreation; administration and ancillary services; accommodation and catering services.

The largest percentage of outflow of the employed was in the agriculture, forestry and fishery as well as in the general government and defense; mandatory social welfare; and real estate operations.

The decrease in the number of employed in some sectors was fully compensated by their growth in other sectors, whereby the unemployment rate in Q2 2011, according to preliminary information, decreased from 5.5% to 5.4% (Figure 21).

It should be mentioned in this respect that the Employment Program-2020 which started to be implemented from Q2 2011 had certain impact on the decrease in the unemployment rate and increase of employment among the population.

Figure 21

Actual unemployment rate, %

Source: Agency of Statistics of the Republic of Kazakhstan

2.3.2. Wages and Productivity

In the first quarter of 2011 as compared to Q1 2010 the average monthly wages increased in nominal terms by 18.2% (Q1 2010 – the growth by 8.2%), and in real terms it increased by 9.0% (the growth – by 0.9%).

However, as compared to Q4 2010 nominal wages decreased by 4.7%, and real wages decreased by 8.0%. Such decrease was caused by a traditionally higher level of income in the last quarter of a year as well as by a higher inflation rate in the first quarter of 2011.

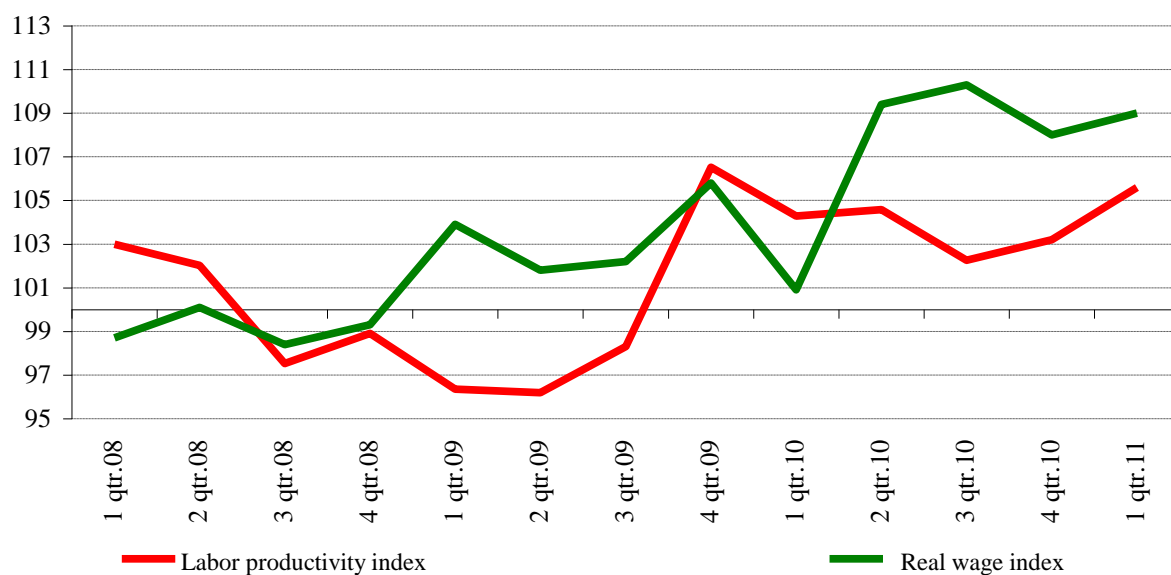
In March 2011 as compared to March 2010 the highest increase in wages in nominal terms occurred in the mining industry (the growth by 38.2%), in the professional, scientific and technical activity (the growth by 29.0%), healthcare and social services (the growth by 28.6%), education (the growth by 24.2%), general government and defense, and mandatory social welfare (the growth by 21.6%).

The highest wages in money terms were observed in March 2011 in the mining industry (KZT198,200), and the lowest – in agriculture (KZT33,800).

The higher GDP growth rate in the first quarter of 2011 (according to estimates, by 7.6%), as compared to the rate of growth in the number of employed individuals (by 1.3%) caused the acceleration of the labor productivity index to 5.6% (according to the National Bank's estimate), whereas this index reached 3.2% a quarter earlier and in the first quarter of 2010 the growth accounted for 4.5% (Figure 22).

Figure 22

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



Source: Agency of Statistics of the Republic of Kazakhstan, estimates by the National Bank of the Republic of Kazakhstan

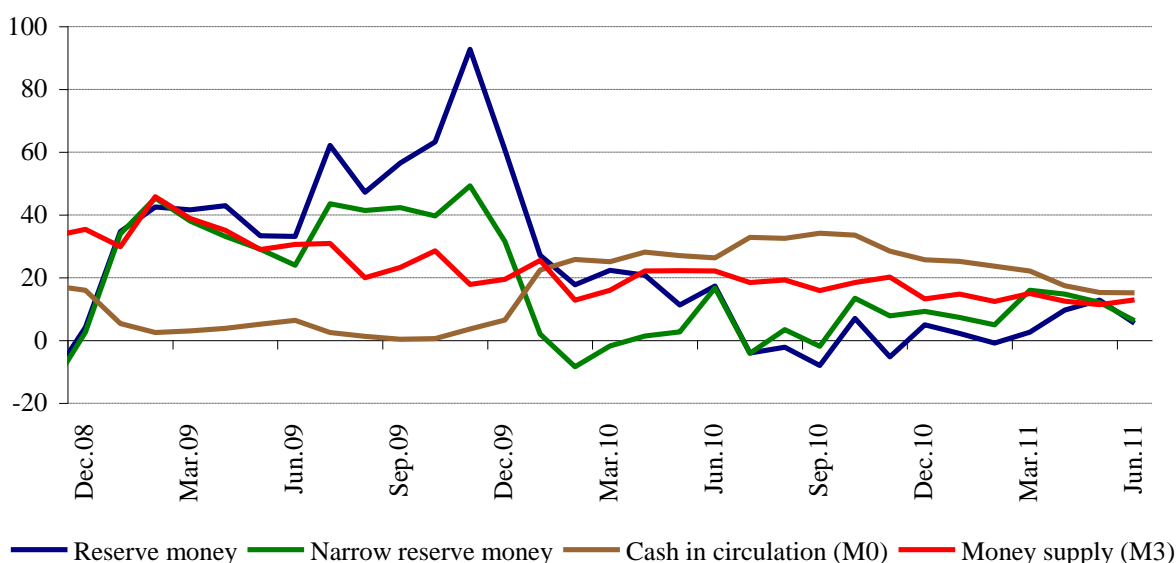
3. Money Supply

3.1. Monetary Aggregates

In the first quarter of 2011 the annual dynamics of monetary aggregates demonstrated rather moderate growth rates (Figure 23).

Figure 23

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



Source: National Bank of the Republic of Kazakhstan

3.1.1. Reserve Money

Reserve money in Q2 2011 expanded by 2.8% and amounted to KZT2888.1 bln. at end-June 2011. Narrow reserve money expanded by 0.3% to KZT2358.2 bln.

In June 2011 as compared to June 2010 reserve money expanded by 5.5%.

Net international reserves of the National Bank increased by 30.5% to US\$34.1 bln. in June 2011, as compared to the respective period of 2010. Within their structure, despite operations on the servicing of the Government's external debt and the decrease in foreign currency balances with correspondent accounts of the second-tier banks at the National Bank, net currency reserves increased as a result of foreign exchange purchase in the domestic foreign exchange market and currency proceeds to the Government's accounts at the National Bank. Assets denominated in gold also increased.

In June 2011 as compared to June 2010 net domestic assets of the National Bank decreased (Table 2), mainly because of increase in liabilities to banks on short-term notes.

Table 2

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

	3 qtr.10	4 qtr.10	1 qtr.11	2 qtr.11
Net international reserves	36.1	23.0	30.3	30.5
Net domestic assets	-364.5	-498.0	-384.4	-104.9
Net claims on the Government	-83.5	-64.4	-0.3	-56.2
Claims on the economy	-154.3	-222.6	-352.7	-192.5
Other net domestic assets	-18.8	-20.0	-34.9	-52.1
Reserve money	-7.9	5.0	2.7	5.5
Narrow reserve money	-1.8	9.2	16.0	6.3

Source: National Bank of the Republic of Kazakhstan

3.1.2. Money Supply

During Q2 2011, money supply increased by 4.9% to KZT9360.2 bln.

In June 2011 as compared to June 2010 its growth accounted for 12.9% as a result of increase in net foreign assets of the banking system (Table 3).

Table 3

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

	3 qtr.10	4 qtr.10	1 qtr.11	2 qtr.11
Net foreign assets	138.3	62.5	50.3	48.5
Domestic assets	-27.4	-15.0	-8.5	-7.8
Claims on the Government	166.2	72.3	284.7	17.6
Claims on the economy	3.6	5.6	1.4	4.9
Other net domestic assets	-42.1	-28.3	-11.1	-21.4
Money supply	15.9	13.3	15.0	12.9
Cash in circulation	34.2	25.7	22.1	15.3
Deposits of residents	13.6	11.6	14.1	12.6

Source: National Bank of the Republic of Kazakhstan

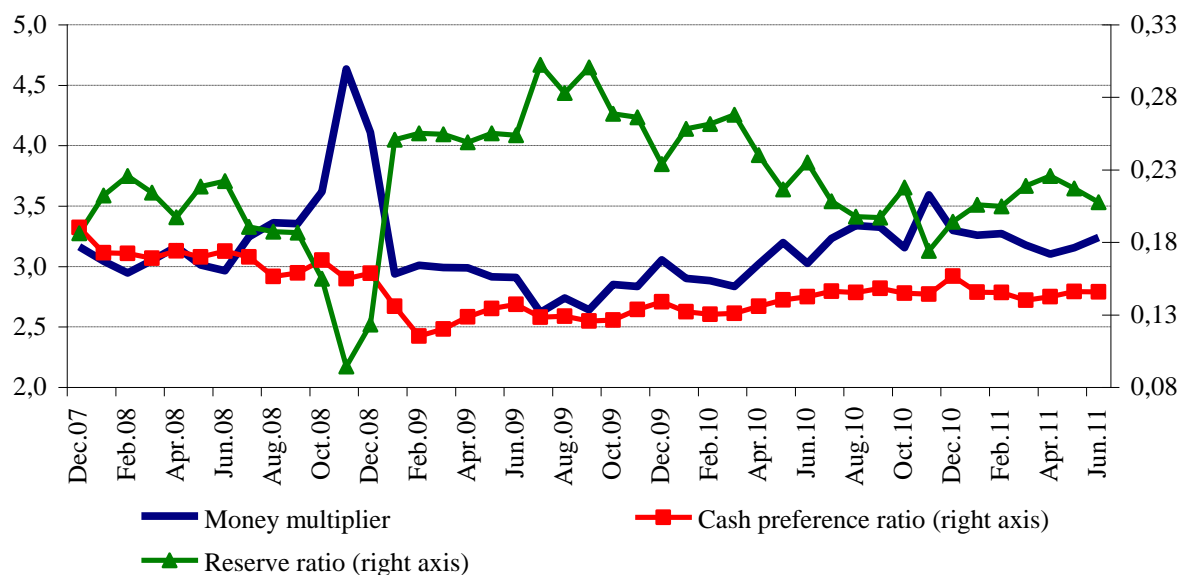
In the structure of net foreign assets of the banking system in June 2011 as compared to the respective period of 2010, net foreign assets of banks and of the National Bank increased. The growth in net foreign assets of banks was mainly stipulated by the decreased claims of non-residents on banks.

During the reviewed period in the structure of the main components of money supply the outstripping growth rates of cash in circulation were noted as compared to the growth rates of residents' deposits in the banking system. As a result, the share of deposits of residents in the structure of the money supply decreased from 87.5% in June 2010 to 83.7% at end-June 2011.

The money multiplier grew from 3.03 in June 2010 to 3.24 in June 2011 as a result of outstripping growth in the money supply against the rates of expansion of the reserve money. The reason for that was the decreased reserve ratio alongside with an increase in cash preference ratio (Figure 24).

Figure 24

Dynamics of money multiplier and its components



Source: National Bank of the Republic of Kazakhstan

3.1.3. Cash in Circulation

In Q2 2011 the volume of cash in circulation increased by 8.6% to KZT1191.7 bln. The growth of cash in circulation is explained by the growth in payouts on wages, retirement benefits and allowances and, as a result, by the growth in payouts to support ATMs as well as increased payoffs on demand deposits and checking accounts of individuals. At the same time, the impact of these factors was partially neutralized by the decrease in net proceeds from the sales of goods, works and services, decreased net payoffs on time deposits of individuals and insignificant growth of proceeds from foreign exchange sales.

In June 2011 as compared to June 2010 cash in circulation increased by 15.3%. Alongside with that, payouts of cash from the bank cashier departments increased by 21.1% to KZT 1.2 trln., cash receipts to the bank cashier departments – by 23.6% to KZT 1.1 trln.

3.2. Financial Market

3.2.1. Deposits of Residents

At end-June 2011 deposits of residents amounted to KZT8168.5 bln., having increased by 4.4% during Q2 2011. Deposits of legal entities increased by 3.2%, deposits of individuals increased by 7.2%. Deposits in the domestic currency increased by 5.2% to KZT5648.2 bln. and foreign currency deposits increased by 2.5%, amounting to KZT2520.3 bln.

The growth in foreign currency deposits in May and June 2011 was of a local nature and could not break the trend of preference to domestic currency deposits that was forming in 2011. As a result, deposits in the domestic currency increased by 18.2%, and foreign currency deposits decreased by 1.5%.

This process led to a further decline in the degree of monetization of deposits, as a result of which the percentage of foreign currency deposits in June 2011 decreased to 30.9% versus 34.9% in December 2010.

Thus, the growth of the Tenge deposits served as a main source for the overall deposit base growth (Table 4).

Table 4

**Dynamics of changes in residents' deposits
(as % to December of the previous year)**

	June 08	June 09	June 10	June 11
Deposits of residents	13.8	10.3	10.3	11.4
<i>of individuals</i>	<i>1.4</i>	<i>9.1</i>	<i>5.0</i>	<i>11.2</i>
<i>of non-bank legal entities</i>	<i>21.0</i>	<i>10.8</i>	<i>12.5</i>	<i>11.5</i>
Deposits in the Tenge	9.9	-6.6	18.3	18.2
Deposits in foreign currency	21.9	41.2	0.1	-1.5

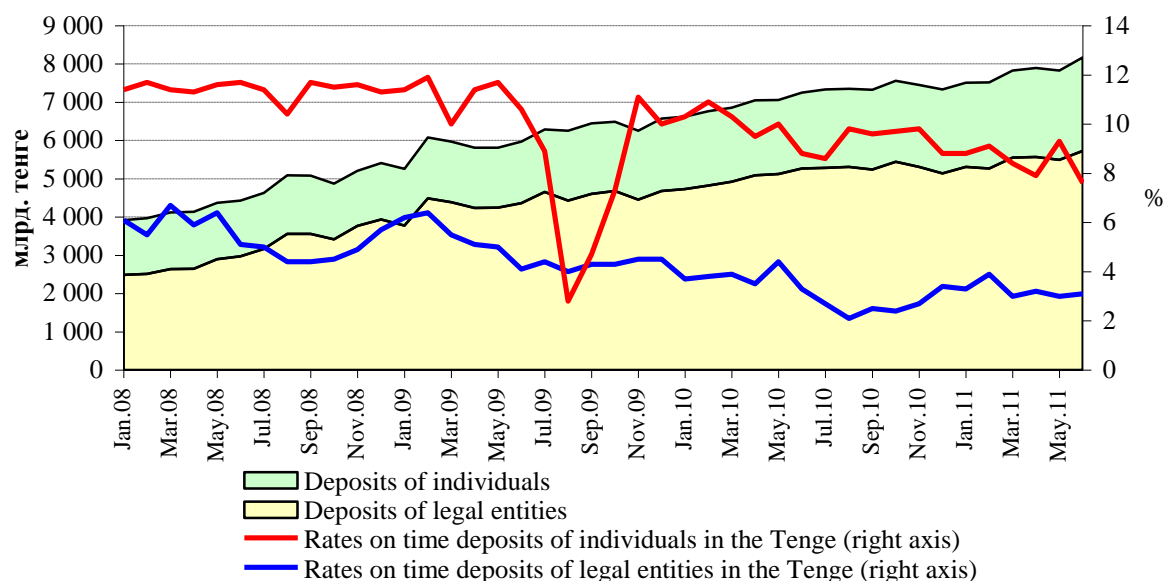
Source: National Bank of the Republic of Kazakhstan

The interest rates on deposits remained at the level of the previous quarter although in Q2 2011 there was some downward trend in the interest rates on the Tenge deposits and an upward trend – on foreign currency deposits.

In June 2011 the average weighted interest rate on the Tenge time deposits of non-bank legal entities was 3.1% (in December 2010 – 3.4%), and on deposits of individuals – 7.6% (8.8%) (Figure 25).

Figure 25

Dynamics of deposits and their interest rates

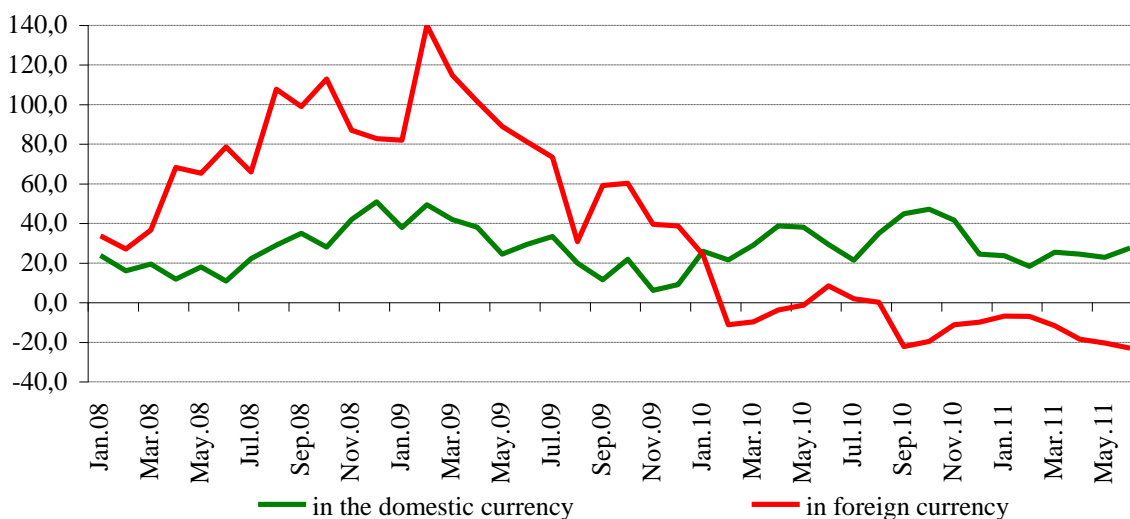


Source: National Bank of the Republic of Kazakhstan

In January-June 2011 the volume of deposits of legal entities increased by 11.5% to KZT 5728.6 bln., and the annual growth (June 2011 versus June 2010) accounted for 8.8%. Deposits of legal entities in the domestic currency increased in annual terms by 27.5%, and foreign currency deposits decreased by 23.1% (Figure 26).

Figure 26

**Dynamics of the change in deposits of legal entities
(as % of the respective period of the previous year)**

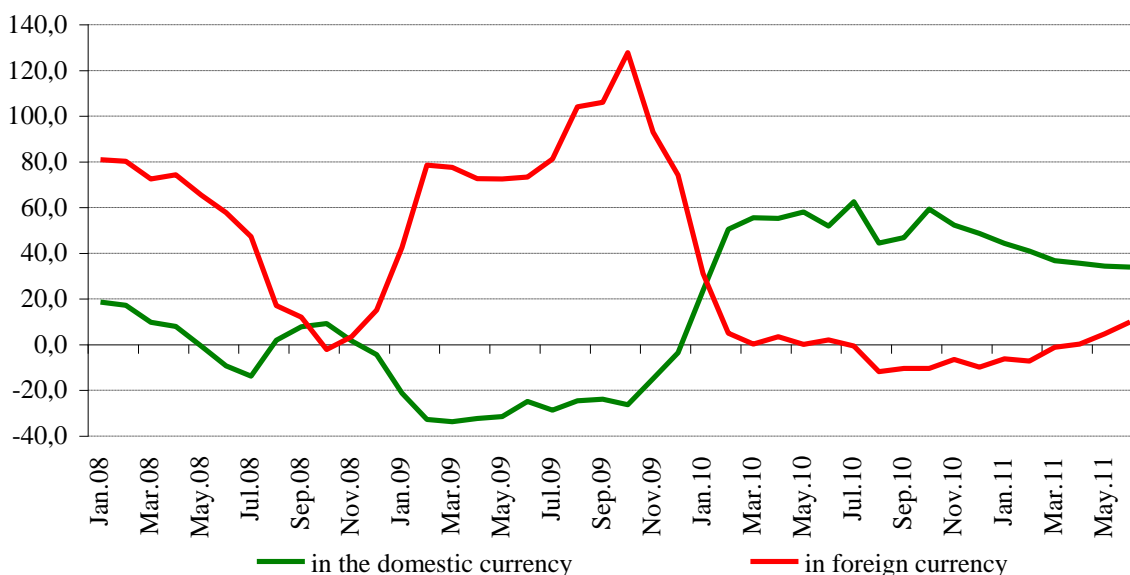


Source: National Bank of the Republic of Kazakhstan

The volume of deposits of individuals has increased by 11.2% to KZT2440.0 bln. since the beginning of the year, and the annual growth accounted for 22.7% in June 2011. Deposits of individuals in the domestic currency in annual terms increased by 33.9%, and foreign currency deposits increased by 10.0% (Figure 27).

Figure 27

**Dynamics of the change in deposits of individuals
(as % of the respective period of the previous year)**



Source: National Bank of the Republic of Kazakhstan

3.2.2. Credits to the Economy

In Q2 2011 bank credits to the economy increased by 3.5% to KZT7932.7 bln. Credits to legal entities increased by 3.0%, credits to the population – by 4.7%.

In January-June 2011 the lending volume increased by 4.5%, and credits to both legal entities and individuals also increased by 4.5%.

The average weighted rate on credits to legal entities decreased from 11.9% to 11.4% in June 2011 as compared to December 2010. This was caused by the decrease in the cost of borrowing for legal entities in the domestic currency in Q2 2011, whereas foreign currency loans demonstrated insignificant increase in interest rates.

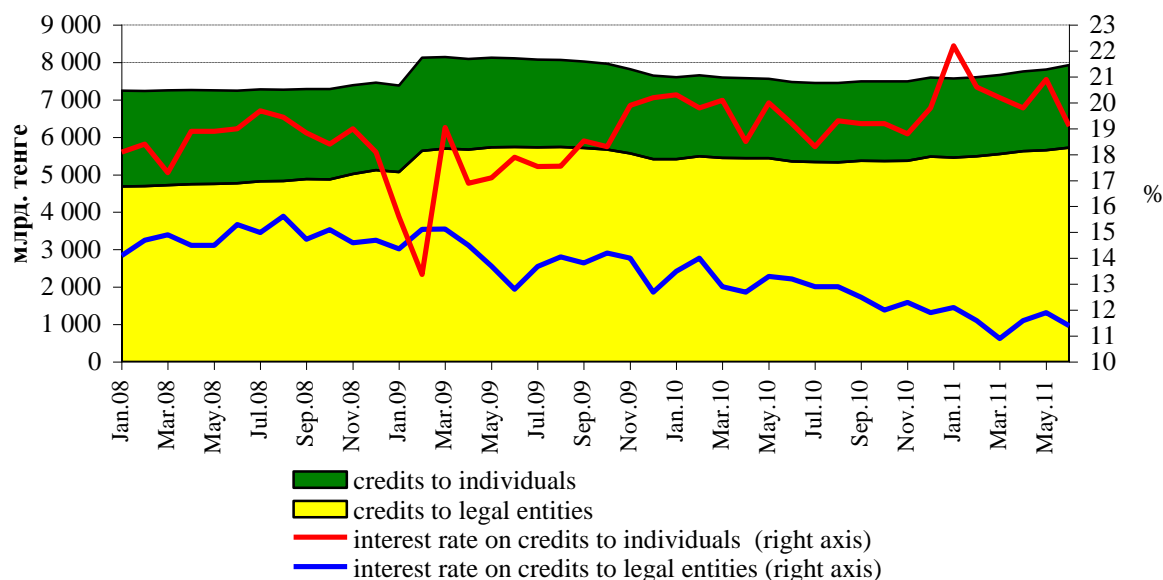
The average weighted rate on credits to individuals decreased from 19.8% to 19.1% in June 2011 as compared to December 2010, being caused by the decrease in interest rates in loans provided both in the domestic and foreign currencies (Figure 28).

In the structure of credits by objects of financing the major volume of debt fell on credits provided for the purchase of working capital (26.3%), for new construction and reconstruction (16.2%), as well as for other purposes (25.0%).

In a sectoral breakdown, the highest debt on bank credits falls on other sectors (non-production sphere and individual entrepreneurship) – 41.8%, trade – 19.9%, construction – 18.6%, and industry – 11.4%.

Figure 28

Dynamics of credits to the economy and their interest rates

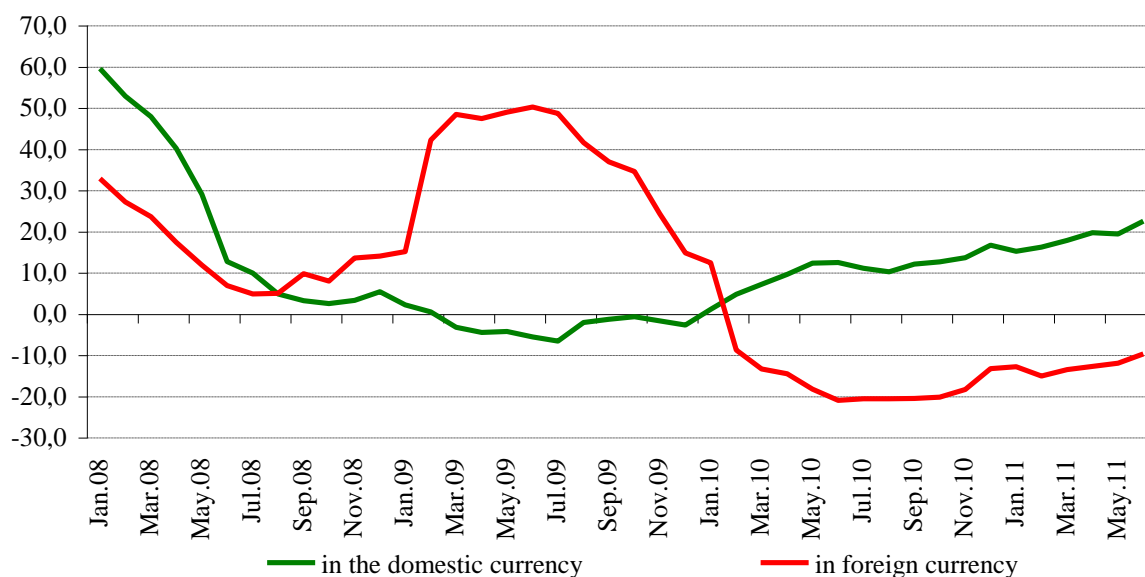


Source: National Bank of the Republic of Kazakhstan

In June 2011 as compared to June 2010, the volume of credits to legal entities increased by 6.8%. Credits to legal entities in the domestic currency increased by 22.6% in annual terms, and credits in foreign currency decreased by 9.6% (Figure 29).

Figure 29

**Dynamics of credits to legal entities
(as % of the respective period of the previous year)**



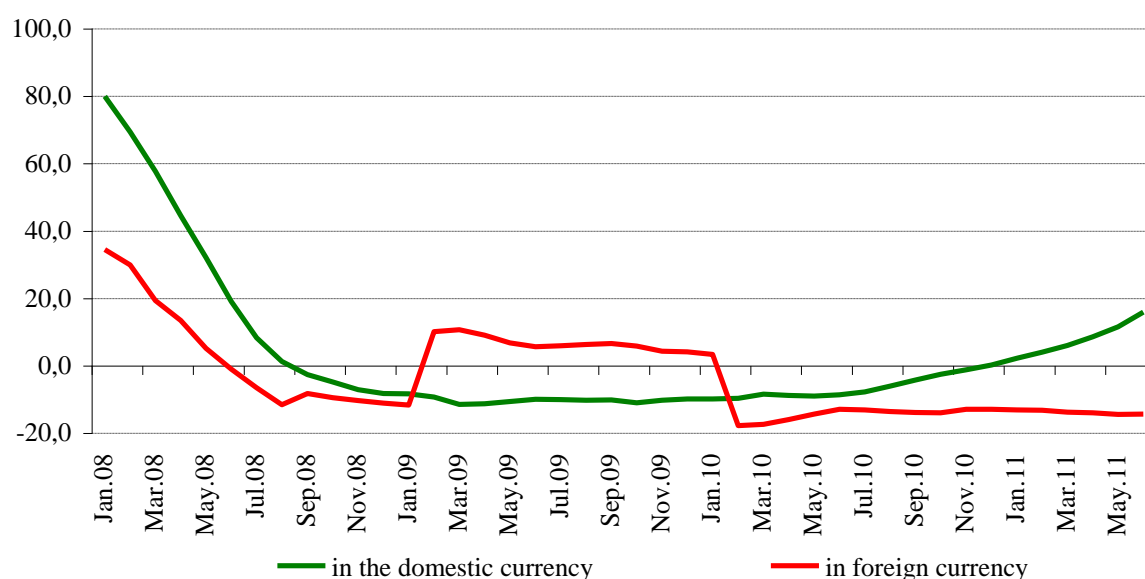
Source: National Bank of the Republic of Kazakhstan

The share of medium- and long-term credits at end-June 2011 amounted to 78.0% in the total volume of credits to legal entities (in December 2010 – 78.8%).

The volume of credits to individuals increased by 4.3% in June 2011, as compared to the respective period of 2010. In the structure of credits to the population, credits in the domestic currency have demonstrated the increase by 16.0% and credits in foreign currency – the decrease by 14.3% (Figure 30).

Figure 30

**Dynamics of credits to the population
(as % of the respective period of the previous year)**



Source: National Bank of the Republic of Kazakhstan

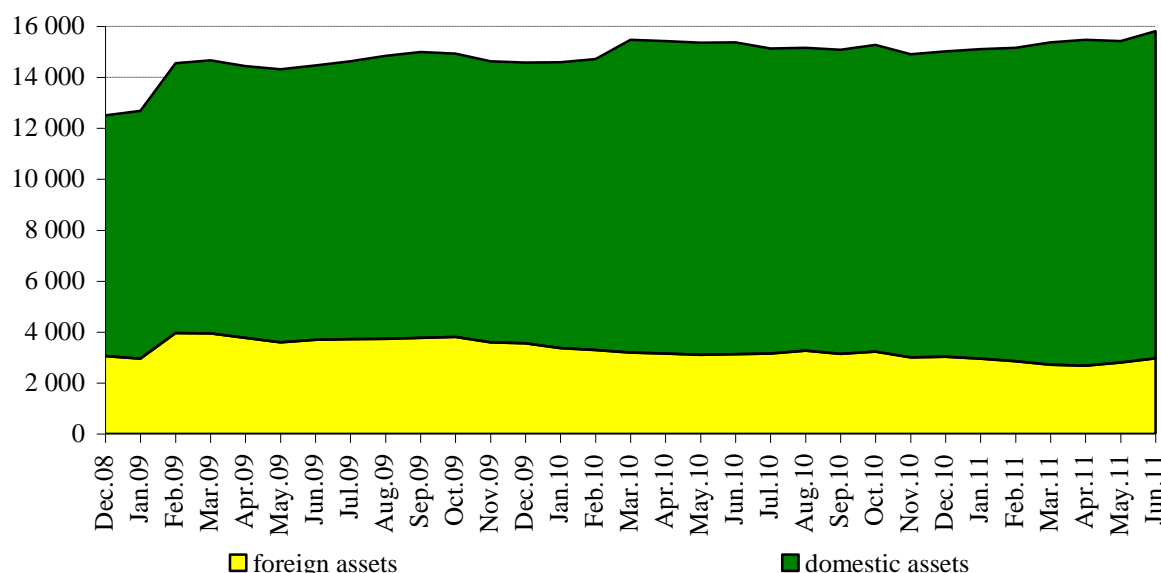
3.2.3. Bank Assets and Liabilities

– Assets

In Q2 2011 the amount of bank assets calculated under the Monetary Survey decreased by 2.9% to KZT15.8 trln. Bank assets increased in annual terms (June 2011 versus June 2010) by 2.9% (Figure 31).

Figure 31

Dynamics of bank assets, KZT bln.



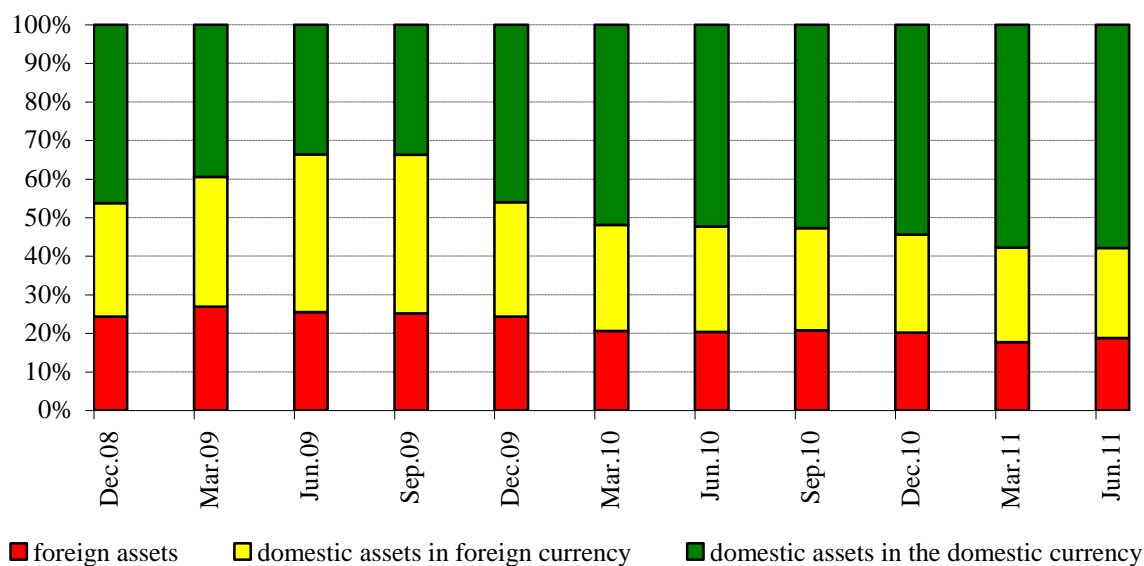
Source: National Bank of the Republic of Kazakhstan

Foreign assets of banks in June 2011 accounted for 18.8% of total assets or US\$20.3 bln. They decreased by 3.5% as compared to December 2010, and increased by 9.2% as compared to March 2011.

In the structure of foreign assets in June 2011, credits to non-residents accounted for 48.7% (in March 2011 – 55.2%), deposits placed with non-residents – 28.7% (in March 2011 – 19.7%), securities of non-residents – 4.2% (in March 2011 – 5.9%), other accounts receivable – 18.3% (in March 2011 – 19.2%).

Domestic assets in June 2011 accounted for 81.2% or KZT12.8 trln., where assets in the domestic currency amounted to 71.3% or KZT9.2 trln., in foreign currency – 28.7% or KZT3.7 trln. In April-June 2011 domestic assets increased by 1.5%, including the increase in the domestic currency assets by 3.2%, and the decrease in foreign currency assets by 2.3% (Figure 32).

Figure 32

Structure of bank assets, %

Source: National Bank of the Republic of Kazakhstan

In April-June 2011 the quality of bank assets was slightly deteriorating. The share of standard assets decreased from 48.6% to 48.3%, share of doubtful assets increased from 36.0% to 36.2%, and the share of bad assets hasn't virtually changed having increased from 15.4% to 15.5%.

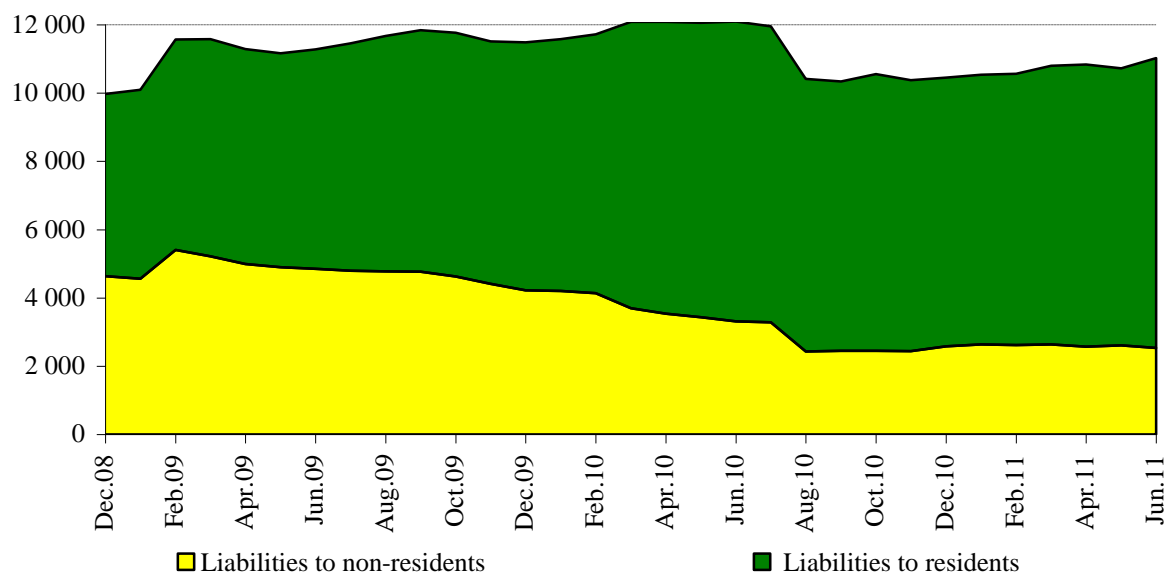
In the structure of doubtful assets a certain migration of assets towards concentration of assets of category 1 and 3, is observed. The share of assets of category 2 within the structure of doubtful assets decreased from 13.5% to 12.9%, of category 3 – increased from 22.3% to 22.9%, share of assets of category 1 decreased from 33.9% to 30.0%, of category 4 – remained unchanged (9.2%), of category 5 – decreased from 25.2% to 24.8%. Such changes in the structure of doubtful assets indicate a remaining threat of deterioration in the quality of bank assets.

As a whole, under the Monetary Survey for Q1 2011, bank assets demonstrated a slight growth. A high level of credit risk and low asset quality still represent weak aspects of the Kazakh banking system. As before, banks adhere to a conservative policy and avoid active crediting of the economy.

– Liabilities

In Q2 2011 total bank liabilities calculated according to the Monetary Survey increased by 2.1 and amounted to KZT11.0 trln. at end-June (Figure 33).

Figure 33

Dynamics of bank liabilities, KZT bln.

Source: National Bank of the Republic of Kazakhstan

Bank liabilities to non-residents decreased by 3.8% to KZT2.5 trln. (US\$17.4 bln.) in June 2011 as compared to March 2011. Bank liabilities decreased by 23.5% versus the respective month of 2010. At end-June 2011 they accounted for 23.0% of the volume of bank liabilities.

In June 2011, in the structure of bank liabilities to non-residents, the share of liabilities on deposits of non-residents decreased from 11.6% in March 2011 to 9.0%, the share of liabilities on securities increased from 63.6% to 68.3%, and credits from non-residents decreased from 22.9% to 20.3%, respectively.

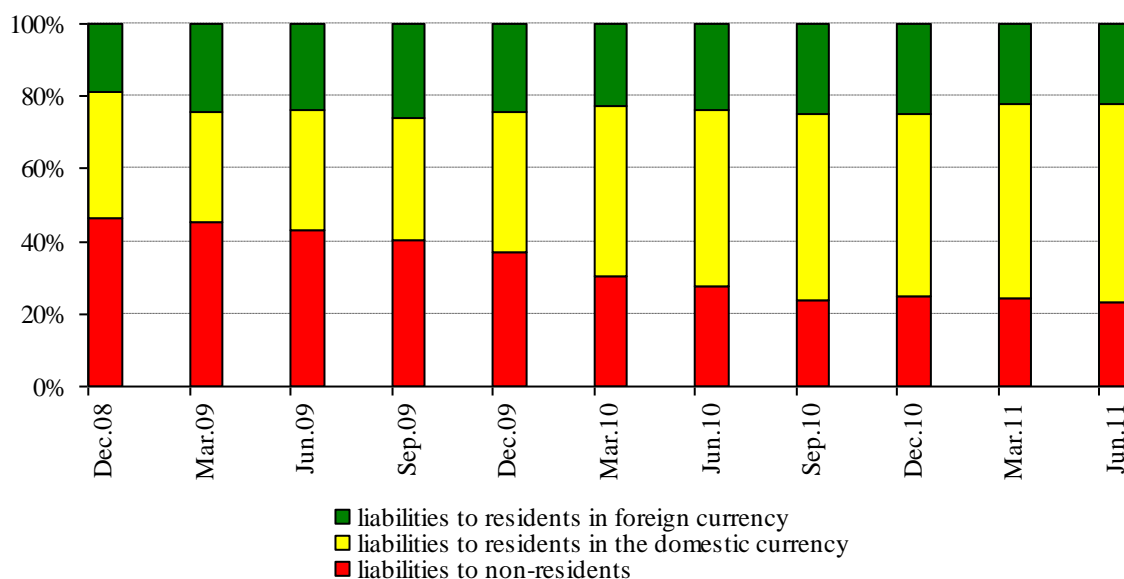
In April-June 2011 liabilities to residents increased by 4.0% to KZT8.5 trln. (US\$58.2 bln.), where liabilities in the domestic currency increased by 4.4% to KZT6.1 trln., and foreign currency liabilities increased by 2.9% to KZT2.4 trln. (Figure 34).

Thus, in Q2 2011 there was a multi-directional trend in respect of bank liabilities: both the growth in liabilities to residents and the decrease in liabilities to non-residents. The growth in liabilities to residents was secured by the increase in the foreign currency component. The decrease in liabilities to non-residents occurred as a result of the decrease in deposits and credits of non-residents.

Therefore, one may state that during the second quarter of 2011 the process of replacing the external funding by the domestic funding sources was continuing.

Figure 34

Structure of bank liabilities, %



Source: National Bank of the Republic of Kazakhstan

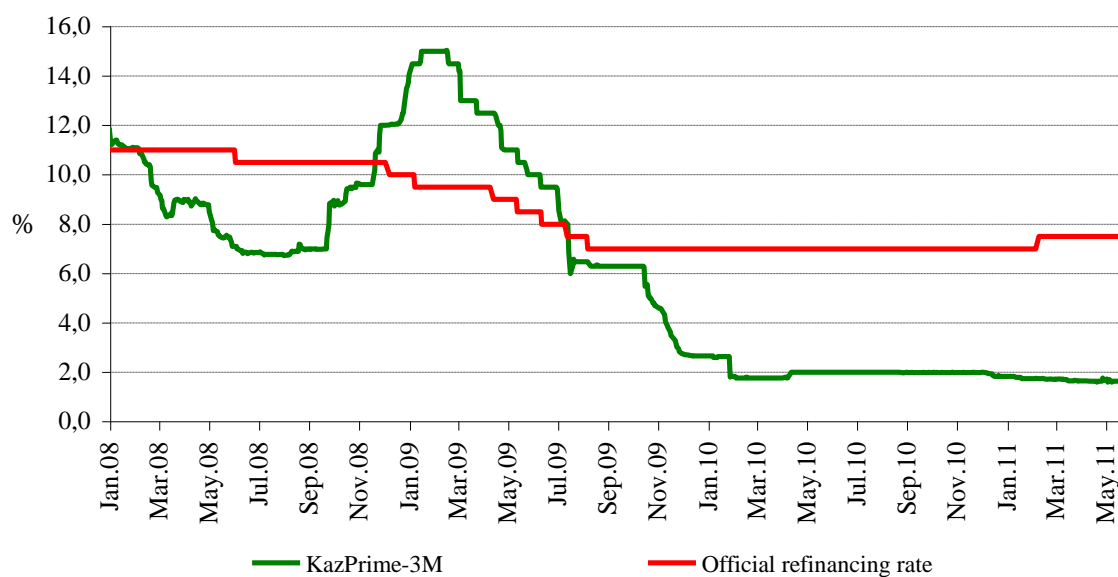
3.2.4. Financial Market Rates

In Q2 2011 multi-directional trends of the change in the rates were observed in the interbank market.

KazPrime index decreased from 1.79% on average during Q1 2011 to 1.65% on average during Q2 2011. At end-March this indicator was 1.71%, and at end-June 2011 – 1.63% (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

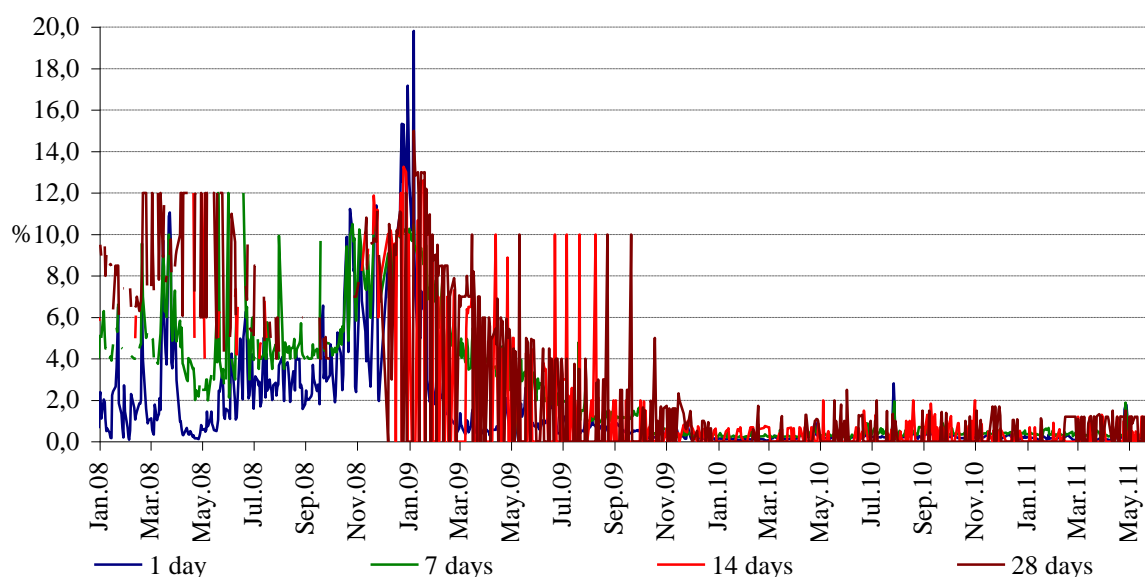
The average weighted rate on 1-day operations in the sector of the automatic REPO in Q2 2011 increased and was 0.29% (in the first quarter – 0.20%). Its maximum level was 1.77% and minimum – 0.06%.

Rate fluctuations on 7-day REPO operations in Q2 2011 were within the range of 0.21% - 1.88% (the average weighted rate was 0.30%), on 14-day REPO operations – between 0.40% and 1.30% (the average weighted rate was 0.63%), and on 28-day REPO operations – between 0.87% and 1.50% (the average weighted rate was 1.20%) (Figure 36).

The transaction volumes in the sector of automatic REPO in Q2 2011 increased by 40.2% as compared to the prior quarter.

Figure 36

Dynamics of rates on REPO operations, %



Source: Kazakhstan Stock Exchange

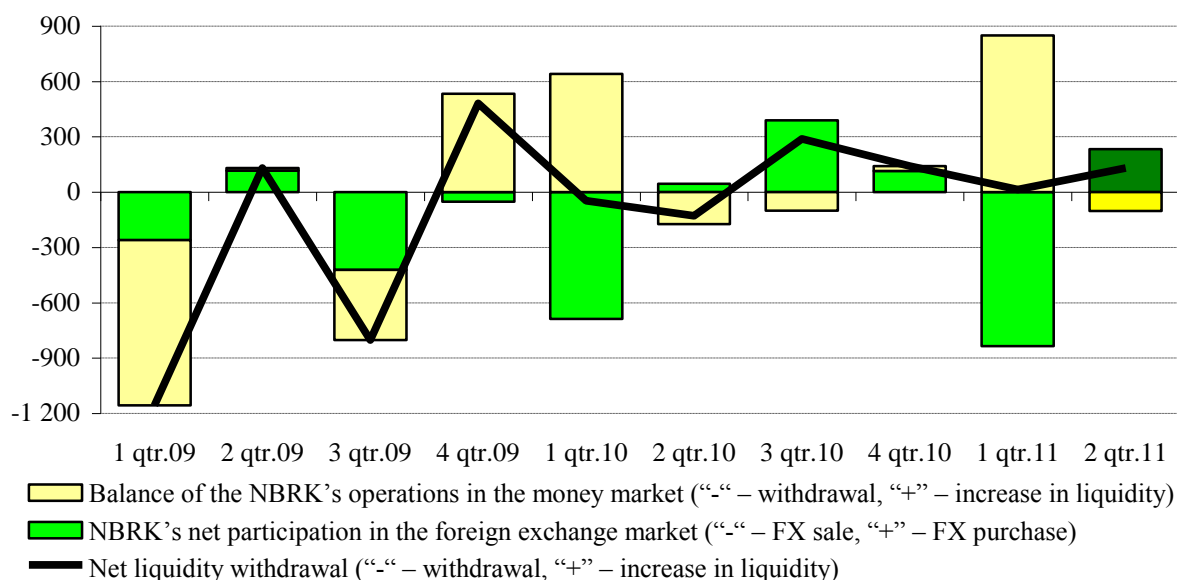
4. Monetary Policy Instruments and Operations

In Q2 2011 the situation in the financial market remained stable, banks had sufficient Tenge liquidity.

In Q2 2011 the National Bank's operations in the financial market resulted in the provision of the Tenge liquidity, mainly because of the decrease in balances on deposits and correspondent accounts of banks in the Tenge at the National Bank (Figure 37).

Figure 37

Balance of the National Bank's operations in the domestic market, KZT bln.

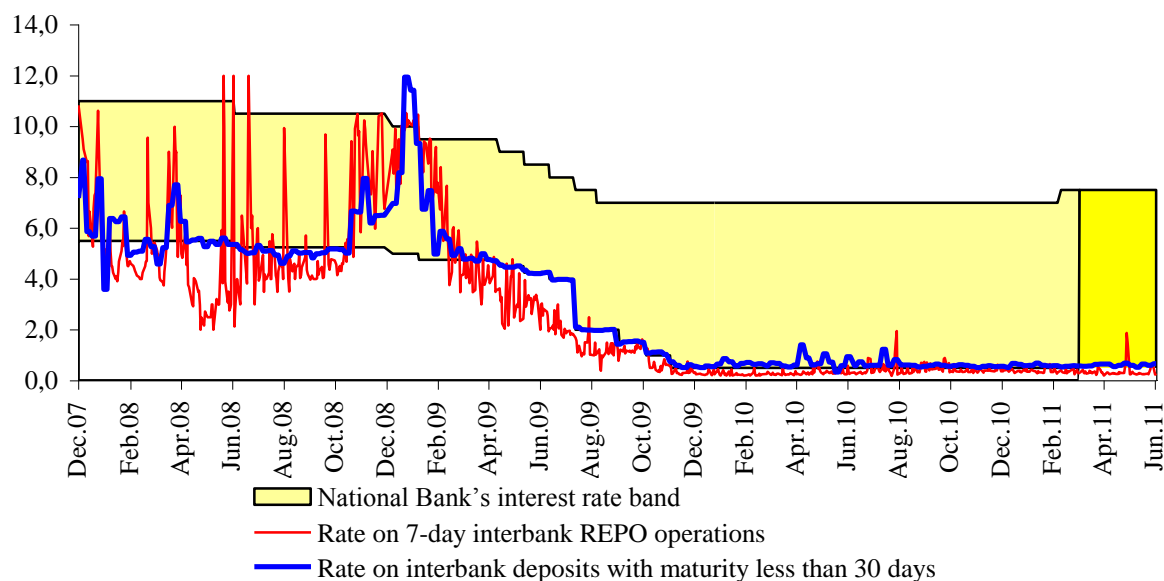


Source: National Bank of the Republic of Kazakhstan

In Q2 2011 the National Bank's rate band remained unchanged. The official refinancing rate was maintained at 7.5%, rates on deposits attracted from banks also haven't changed: the rate on 7-day deposits is 0.5%, and on one month deposits – 1.0%.

In Q2 2011 the National Bank's rate band changed the downward trend in interest rate behavior. On average, in Q2 2011 the level of rates was closer to the lower boundary of the National Bank's rate band. The average weighted rate on interbank deposits with maturity less than 30 days hasn't changed as compared to the first quarter of 2011 and was 0.61%. The average weighted rate on interbank 7-day REPO operations decreased from 0.37% to 0.30% in Q2 2011 (Figure 38).

Figure 38

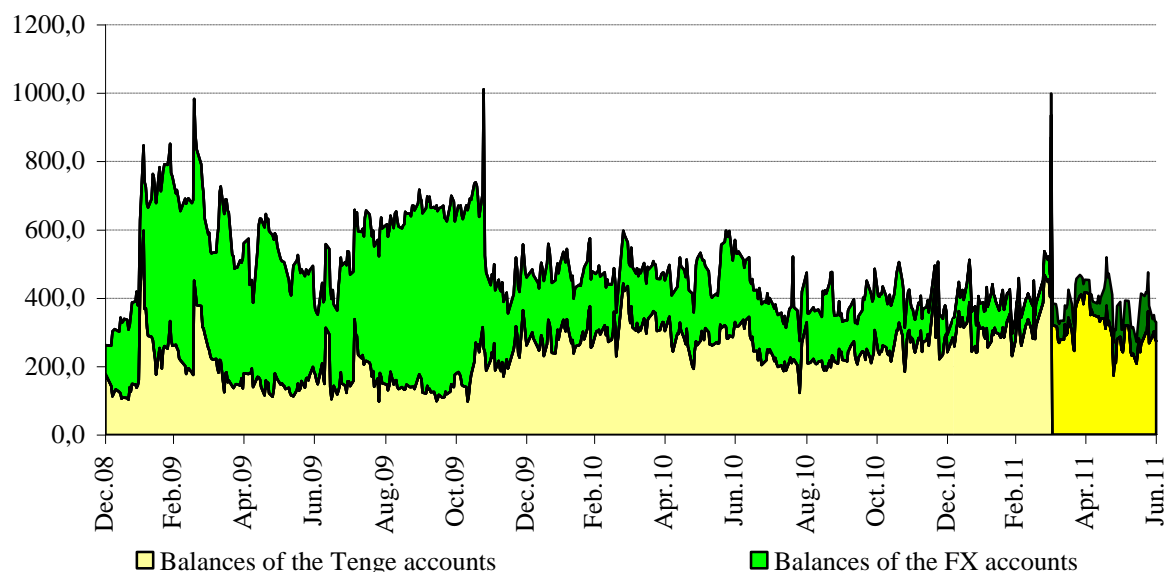
Boundaries of the National Bank's interest rates band, %

Source: National Bank of the Republic of Kazakhstan

In April-June 2011 the dynamics in correspondent account balances of banks with the National Bank was multi-directional. In April correspondent account balances of banks in foreign currency remained relatively stable, in May they slightly increased and in June the downward trend in correspondent account balances outlined. As a whole, at end-June 2011 their volume decreased by 13.1% as compared to the volume at end-March 2011.

Correspondent account balances of banks in the domestic currency in Q2 2011 were volatile; their growth was interchanging with their decrease and vice versa during the entire period. As a whole, in April-June 2011 a downward trend appeared in their dynamics. As a result, their volume decreased by 37.1% at end-June as compared to the volume at end-March 2011 (Figure 39).

Figure 39

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

Source: National Bank of the Republic of Kazakhstan

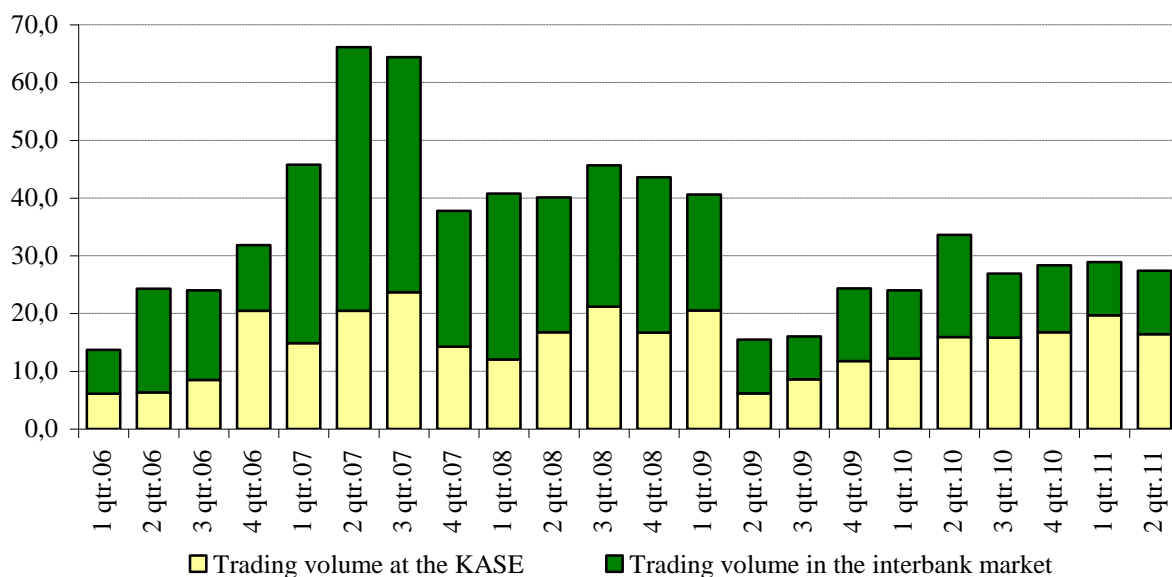
4.1. Interventions in the Domestic Foreign Exchange Market

The situation in the domestic foreign exchange market was developing in the environment of stable demand and supply of foreign exchange.

In Q2 2011 the total trading volume in the FX segment of the Kazakhstan Stock Exchange and in the interbank foreign exchange market amounted to US\$27.4 bln., having decreased by 5.3% as compared to Q1 2011.

The volume of trades in the Dollar position at the Kazakhstan Stock Exchange decreased by 17.0% as compared to Q1 2011 and amounted to US\$16.4 bln. (net trades at the Kazakhstan Stock Exchange made up 76% of gross trades). In the off-exchange foreign currency market the volume of transactions in Q2 2011 increased by 19.6% as compared to the previous quarter and amounted to US\$11.0 bln. (Figure 40).

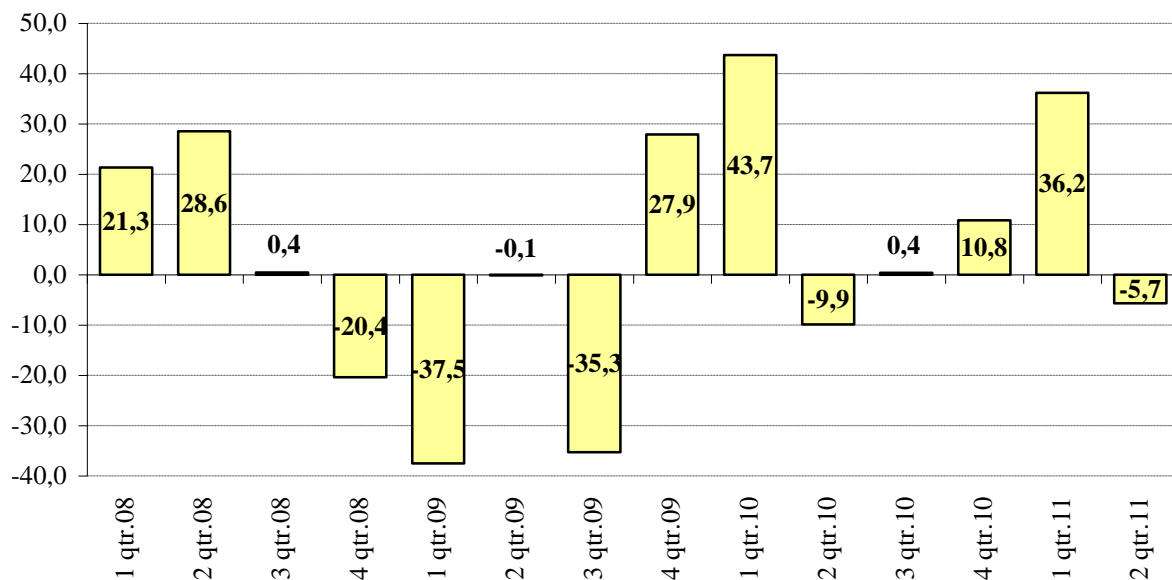
Figure 40

Volume of trading in the domestic exchange market, US\$ bln.

Source: National Bank of the Republic of Kazakhstan

In Q2 2011 the National Bank's participation coefficient in the Kazakhstan Stock Exchange made up -5.7% (in the first quarter of 2011 it was 36.2%) (Figure 41). Thus, in Q2 2011 the National Bank was primarily the seller of foreign exchange in the domestic foreign exchange market.

Figure 41

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

In the environment of persisting inflationary pressure, with a view to tighten monetary policy amendments were made to the Resolution of the National Bank's Managing Board #54

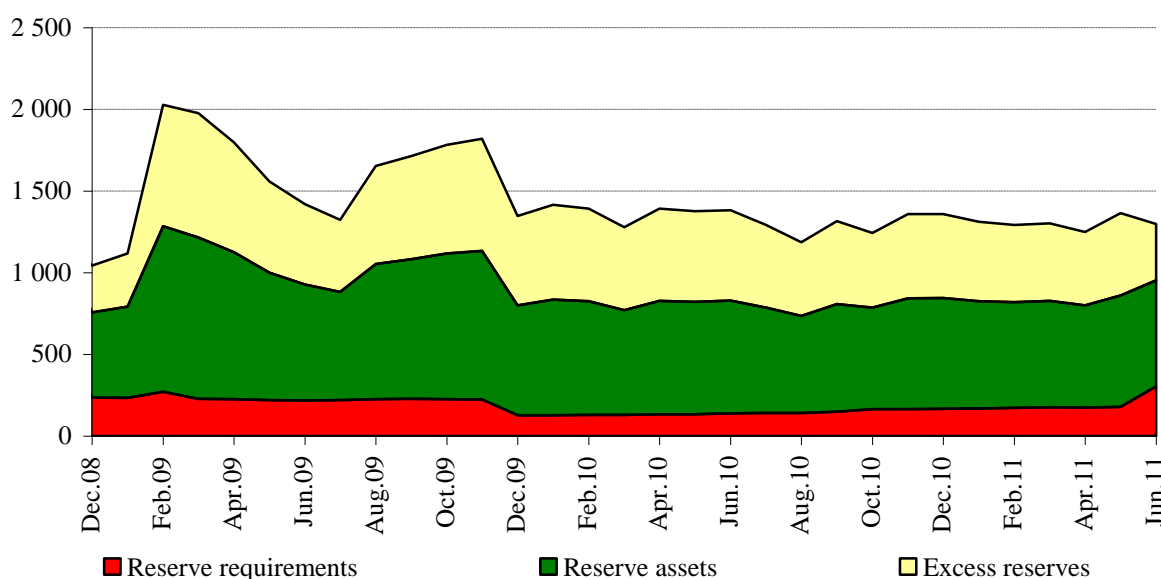
“On Establishing Ratios of Minimum Reserve Requirements”. The decision to change the ratios of minimum reserve requirements (MRR) was made at the meeting of the National Bank’s Managing Board that took place on April 29, 2011). The MRR ratio for the domestic liabilities was established at 2.5%, and for other liabilities – at 4.5%.

Pursuant to the existing legislation new MRR ratios became effective as of May 31, 2011. As a result of the change in minimum reserve requirements, from June 2011 a reduction in excessive bank liquidity has been observed.

On average, in April-June 2011 reserve assets exceeded the required reserving volume by 3.2 times (in the first quarter of 2011 – by 3.7 times on average, in the first quarter of 2010 – by 5.4 times) (Figure 42).

Figure 42

Compliance with minimum reserve requirements, KZT bln.



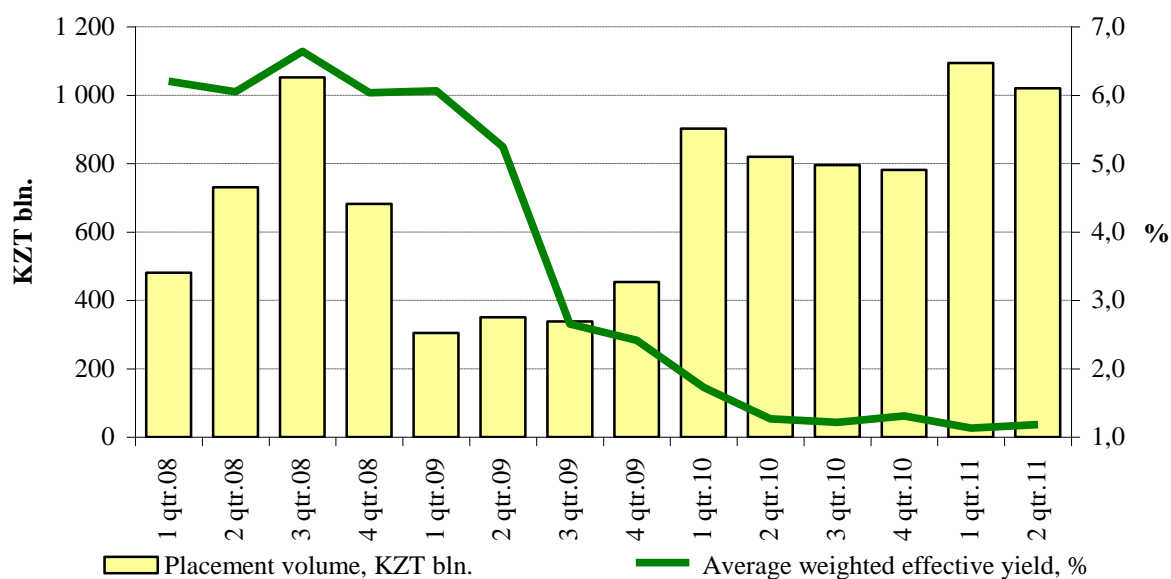
Source: National Bank of the Republic of Kazakhstan

4.3. Open Market Operations

In Q2 2011 the demand of banks for short-term notes of the National Bank remained high. In April-June 2011 the National Bank continued issuing short-term notes with maturities of 3 and 6 months.

The volume of short-term notes issued in Q2 2011 decreased by 6.8% as compared to Q1 2011 and amounted to KZT1019.8 bln. This was fully in line with the aggregate demand of the market participants for these types of government securities. The highest emission volume of short-term notes was in June (over 44% of the total volume issued during Q2 2011). The average weighted yield on issued notes increased from 1.13% in Q1 2011 to 1.18% in Q2 2011 (Figure 43).

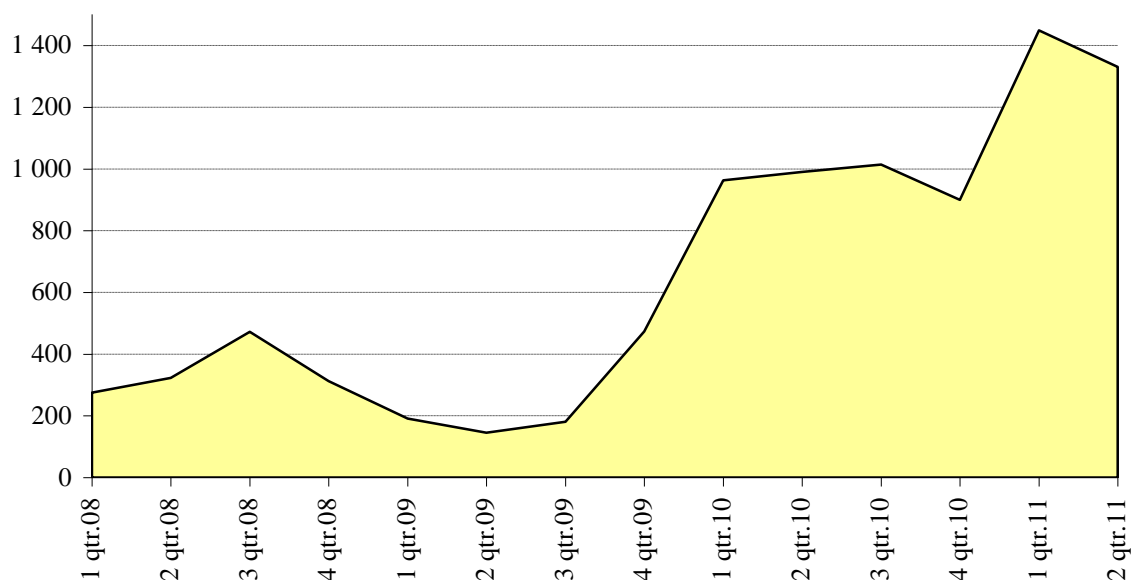
Figure 43

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

Source: National Bank of the Republic of Kazakhstan

At end-June 2011 the volume of short-term notes in circulation amounted to KZT 1330.6 bln., which by 1.5 times exceeds the volume at end-December 2010 (Figure 44).

Figure 44

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

Source: National Bank of the Republic of Kazakhstan

4.4. Standing Facilities

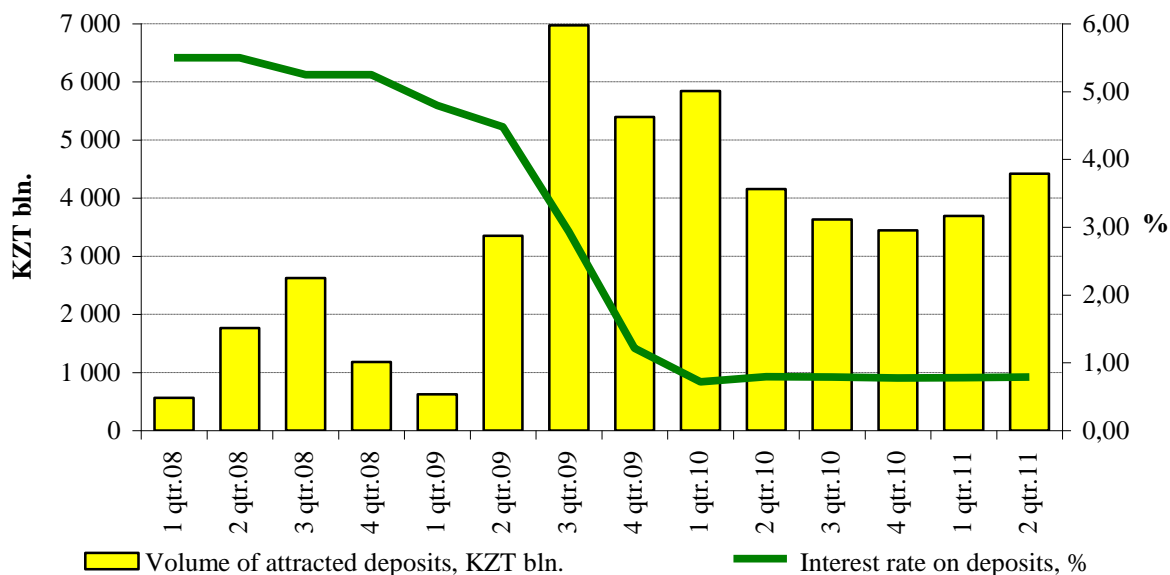
In Q2 2011 the volume of deposits attracted from banks increased as compared to the previous quarter. The volumes of attraction were high during the entire period; the peak of attraction occurred in June (more than 35% of the total attracted volume in Q2 2011). In total,

KZT4420.2 bln. of deposits was attracted during April-June 2011, which is by 19.7% higher than the volume of Q1 2011 and by 6.3% higher than the volume of Q2 2010.

The average interest rate on deposits in Q2 2011 increased from 0.78% to 0.79% as compared to the previous quarter (Figure 45).

Figure 45

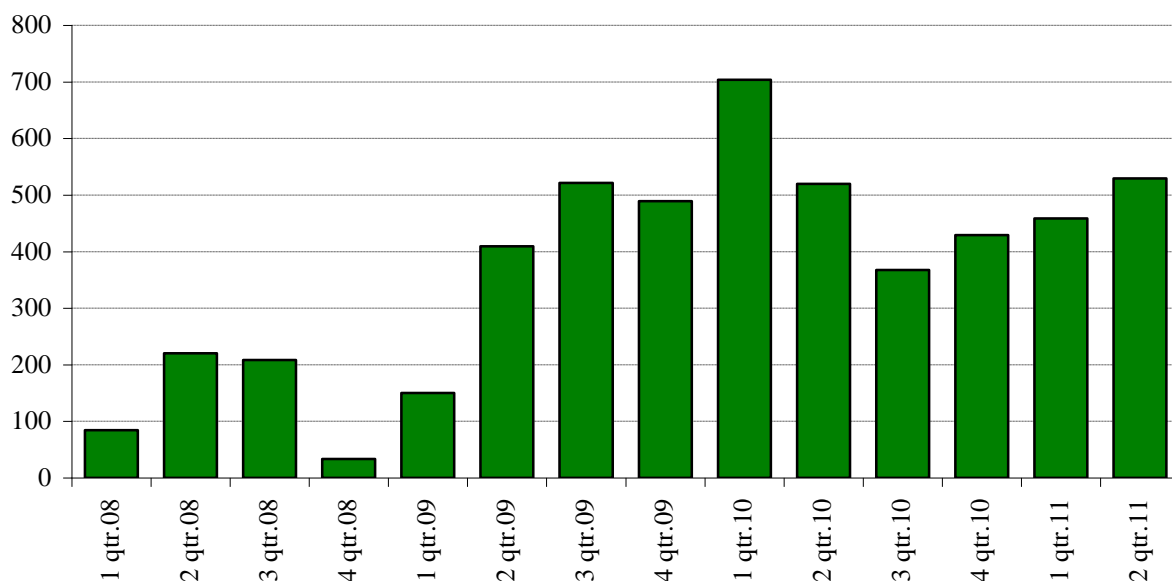
Volume and interest rates on deposits attracted by the National Bank (for the period)



Source: National Bank of the Republic of Kazakhstan

The increase in the volumes of attracted deposits was accompanied by the growth in the volume of the National Bank's outstanding liabilities on such deposits. In June 2011 the volume of outstanding balances on deposits of banks with the National Bank amounted to KZT 529.6 bln., which is by 23.4% higher as compared to the volume in December 2010 (Figure 46).

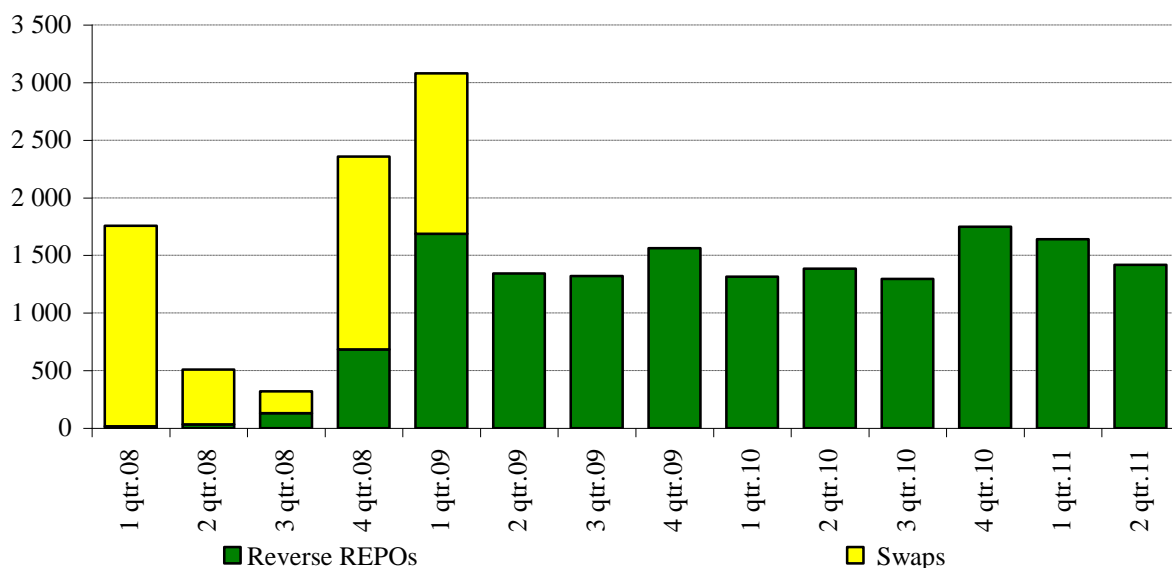
Figure 46

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

In addition to sterilization operations, in Q2 2011 the National Bank continued to provide refinancing loans to the banking sector through reverse REPO operations. Total volume of reverse REPO operations in April-June 2011 amounted to KZT1416.9 bln. Meantime, the volumes of such operations decreased by 13.6%, as compared to the previous quarter (Figure 47).

Figure 47

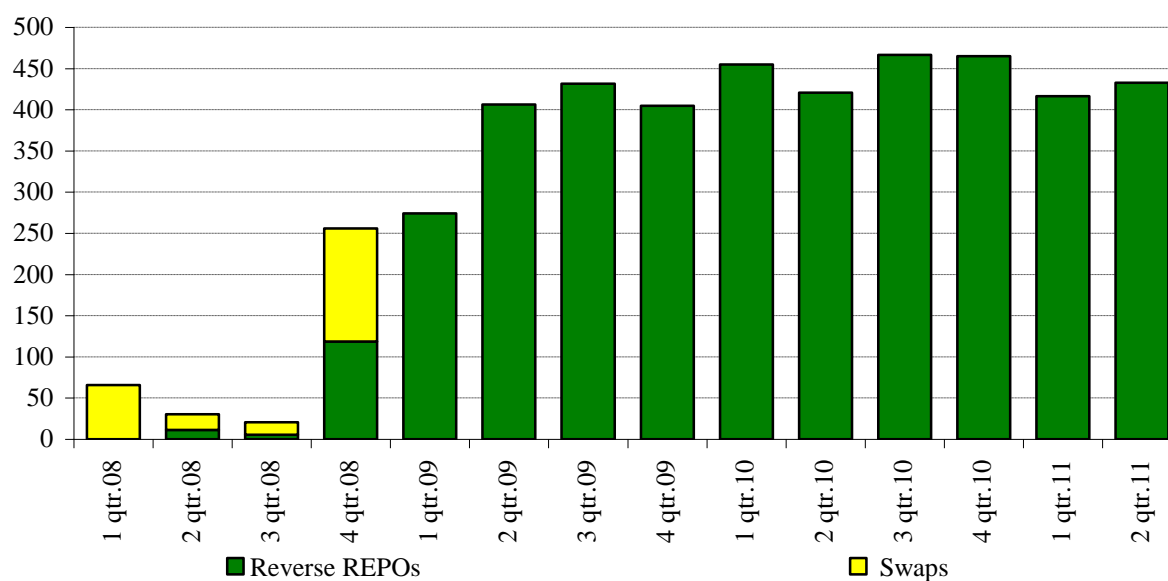
Volume of the National Bank's refinancing operations, KZT billion (for the period)


Source: National Bank of the Republic of Kazakhstan

At end-June 2011 the outstanding debt on reverse REPO operations amounted to KZT 432.7 bln. (Figure 48).

Figure 48

Volume of outstanding liabilities on refinancing operations of the National Bank , KZT bln. (at end-period)



Source: National Bank of the Republic of Kazakhstan