

National Bank
National Bank
of the Republic of Kazakhstan

Inflation Report
for the First Quarter of 2009

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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 Statistics Agency 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;
- core inflation-5: median CPI.

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. Public Finance

Budget **revenues** include income (tax proceeds, non-tax proceeds, proceeds from the sale of fixed capital), repayment of public budget loans, proceeds from the sale of public financial assets.

Budget **spending** is represented by expenditures (current and capital), public budget loans, financial asset acquisitions.

In Section 3. Monetary Aggregates

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 base money refers to base money not including other bank deposits at 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 account balances 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 place 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 5. 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.

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1. Introduction

In 2009 the macroeconomic situation in Kazakhstan was characterized by the decrease in output in some sectors of the economy. The volume of industrial output in the 1st quarter of 2009 decreased by 4.6% as compared to Q1 2008. The decrease was observed in the manufacturing industry – by 11.8%, and in the mining industry – by 0.2%.

The decreased business activity of enterprises entailed the growth of unemployment from 6.7% in December 2008 to 7.0% in March 2009. Low growth rates in the income of population remained, prices for industrial output of Kazakhstani enterprises are decreasing.

The situation in the financial market of Kazakhstan has been unstable. One of the volatility factors was the buildup of devaluation expectations that was especially increasing in the end of 2008 – beginning of 2009. Dramatic and significant reduction in the world prices for oil and metals, devaluations of domestic currencies in the countries – major trading partners of Kazakhstan – caused the pressure on the exchange rate of the Tenge. To ensure stability in the foreign exchange market, the National Bank was significantly spending the gold and foreign currency reserves starting from the fourth quarter of 2008 through January 2009.

As part of implementation of actions for the financial sector stabilization an additional capitalization of four strategic banks was carried out. Four banks got government funding totaling to KZT 480 bln.

The situation in the interbank money market was also characterized by a high degree of volatility. The growth of rates on all operations was observed, with the peak values falling on the last decade of January – first days of February 2009.

In these circumstances the National Bank decided to revise its approaches to the exchange rate policy. From February 4, 2009 a new band for the exchange rate of the Tenge versus the US Dollar was established at 150, +/- 3% or 5 Tenge for a medium-term.

One of the implications of the effected Tenge depreciation was the buildup of inflationary expectations in the consumer market. The National Bank and the Government have tightened their control over inflation.

Nonetheless, the inflationary effect from devaluation appeared to be insignificant. Inflation has accelerated from 0.3% in January 2009 to 0.8% in February and March 2009. In the first quarter of 2009 inflation was 2.0%, annual inflation based on March 2009 amounted to 8.9% (in December 2008 – 9.5%).

In general the situation in the consumer market remains stable. The slow-down of the economic growth rates, limited consumer demand, low growth rates of income of the population, and low growth rates of money supply in the economy also contribute to such situation.

The actions by the National Bank for ensuring stability of the exchange rate of Tenge would also contribute to the stability of prices. In addition, the National Bank continued its efforts aimed at ensuring the financial sector stability.

In particular, in the 1st quarter of 2009 the National Bank reduced its minimum reserve requirements from 2% to 1.5% on domestic liabilities and from 3% to 2.5% on other liabilities.

The National Bank reduced the rates on own operations: in January 2009 the official refinancing rate was reduced from 10.5% to 10.0%, the rate on deposits attracted by the National Bank from banks – from 5.25% to 5.0%, in February 2009 – to 9.5% and 4.75%, respectively.

2. Inflationary Processes

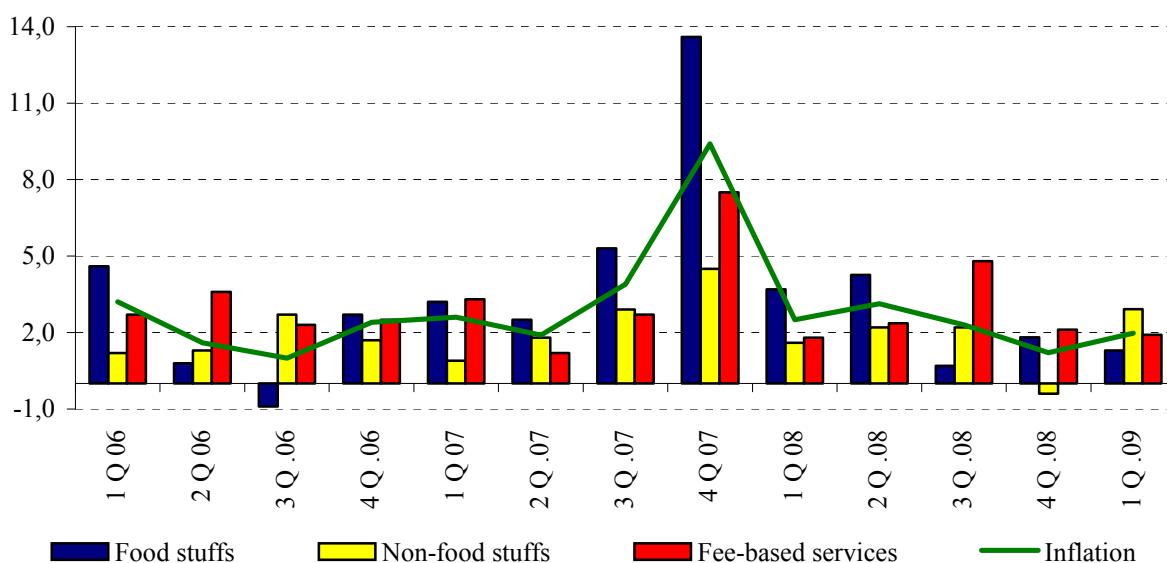
2.1. Consumer Prices

In Q1 2009 the downward tendency for inflationary expectations in the economy remained. Inflation was growing with lower rates in the period as compared to Q2 2008 while exceeding the numbers for the previous quarter. In January-March 2009 inflation was at 2.0%.

The growth of prices in Q1 2009 was caused by the appreciation of non-food items by 2.9%. prices for food items increased by 1.3%, paid services – by 1,9% (Figure 1).

Figure 1

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



Source: Statistics Agency of the Republic of Kazakhstan

In the 1st quarter 2009 the main growth in prices fell on such goods and services as postal services – by 56.4%, services of the railway transport – by 11.4%, detergents – by 19.5%, personal care products – by 13.6%, medical supplies – by 8.9%, non-alcohol drinks – by 8.3%, alcohol drinks – by 7.0%, sugar – by 6.4%.

Growth of prices for individual goods was caused by the growth of inflationary expectations and frenzy as a result of devaluation in February 2009.

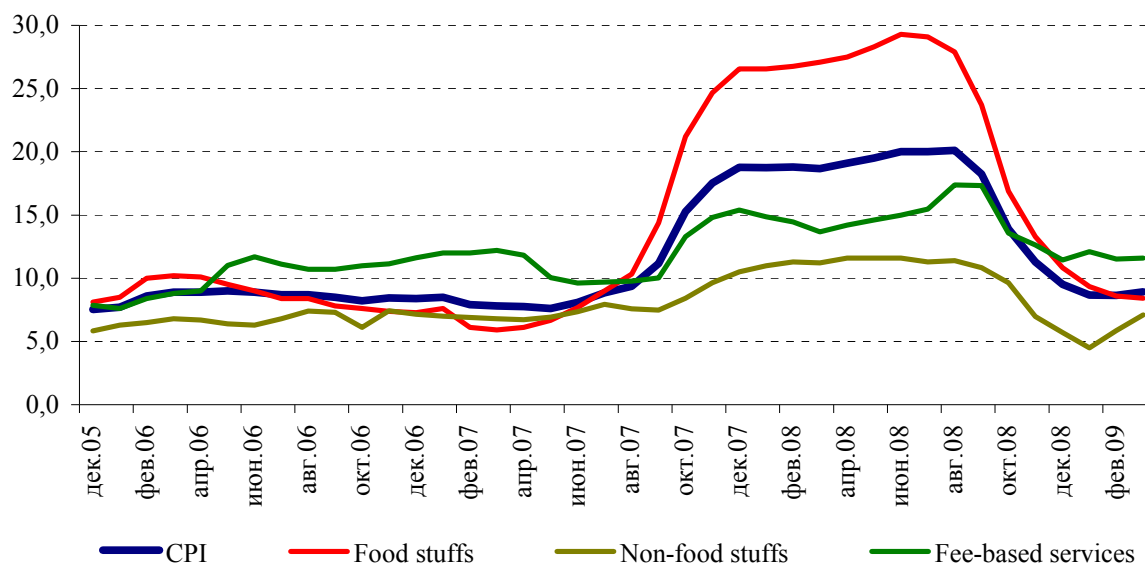
At the same time the reduction of prices for certain goods should be mentioned. Thus, the following foodstuffs have become cheaper: vegetable oil – by 21.0%, eggs – by 7.7%, bread and products – by 0.4%, gasoline – by 9.1%, utilities – by 0.3%.

Based on March 2009 data, the annual inflation was at 8.9% (in December 2008–9.5%).

Foodstuffs have appreciated by 8.3%, non-food items – by 7.1%, paid services to the population – by 11.6% (Figure 3.). In annual terms, the highest price growth fell on rice, sugar, detergents, personal care products, medical supplies, postal services, transportation services, and medical services.

Figure 2

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



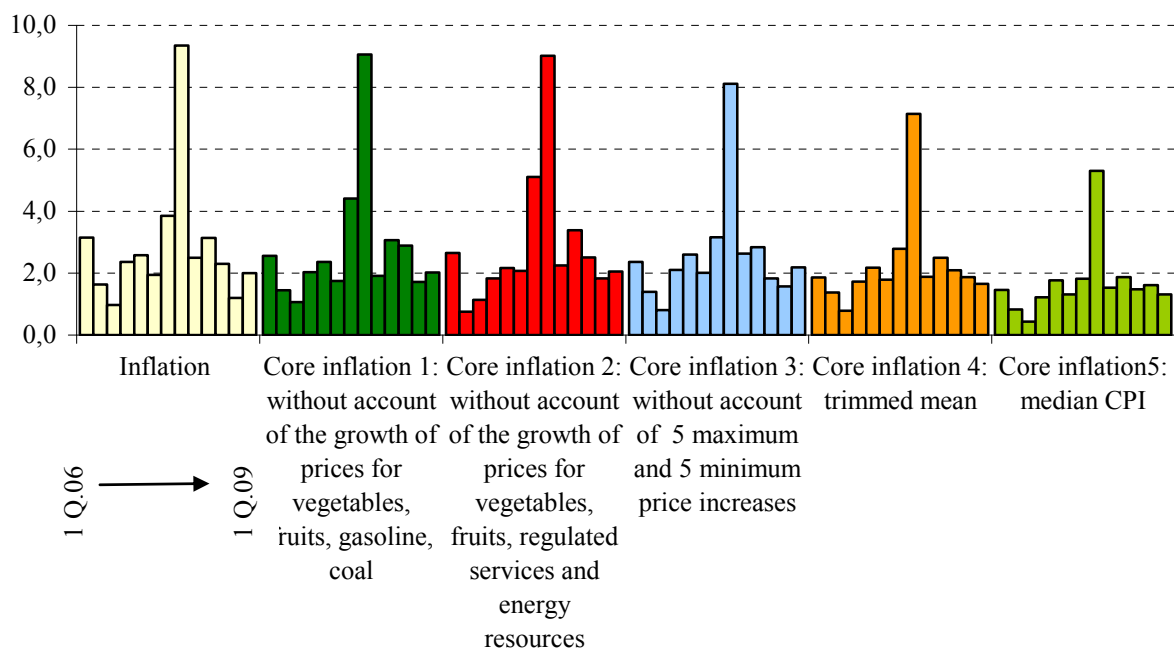
Source: Statistics Agency of the Republic of Kazakhstan

2.2. Core Inflation

Indicators of core inflation in the 1st quarter of 2009 had the dynamics similar to that of total inflation. In January-March 2009 core inflation rates slowed down as compared to Q1 2008 and accelerated as compared to Q4 2008 (except for core inflation-4 and core inflation-5) (Figure 3).

Figure 3

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



Source: Statistics Agency of the Republic of Kazakhstan

In Q1 2009 core inflation rates other than core inflation-4 and core inflation-5 exceeded the headline inflation value. This was associated with the decreased prices for some types of goods and services (fuel and lubricants, oils and fats, bread products, eggs, utilities), the change in their prices being excluded in the calculation of these indicators.

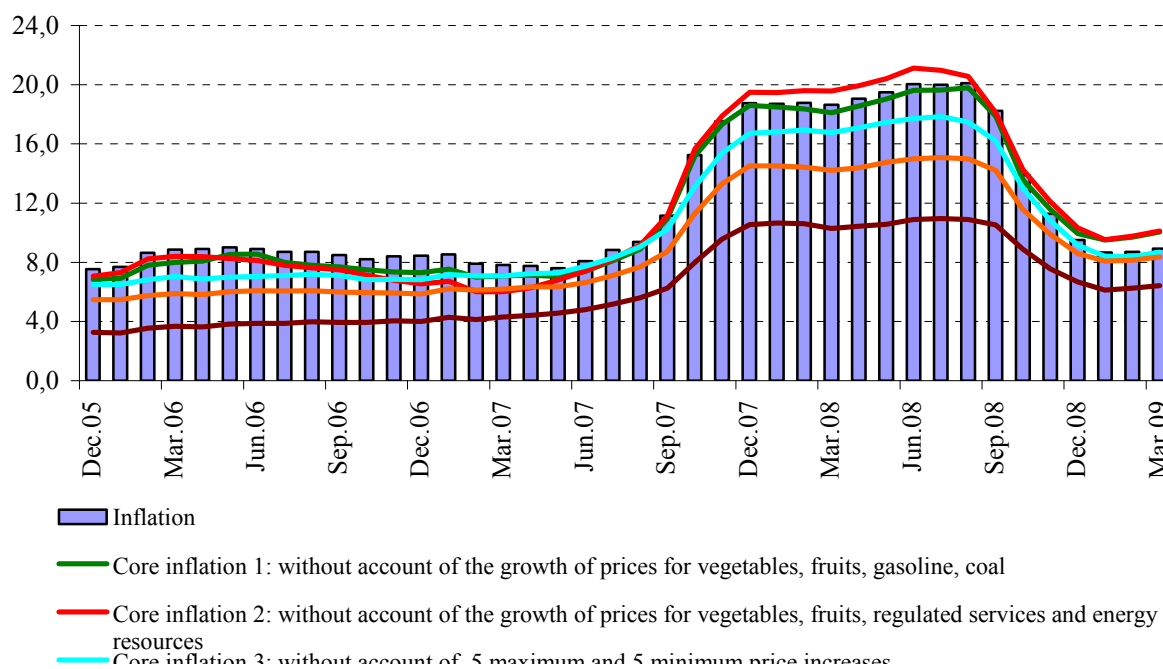
Annualized indicators of core inflation as well as the headline inflation indicator demonstrate a slow-down trend. Only the core inflation-1 indicator appeared to be at a level higher than that of December 2008 whereas other core inflation indicators slowed down.

In the calculation of core inflation-1 the change in prices for fruit and vegetables, coal and gasoline is excluded. Lower growth rates in prices for fruit and vegetables (11.1% in December 2008 versus 2.4% in March 2009 in annual terms), gasoline (reduction by 12.9% versus reduction by 20.5%, respectively) contributed to accelerated core inflation in March 2009 as compared to December 2008.

At the same time it should be mentioned that based on March 2009 performance, annualized indicators of core inflation-1 and core inflation-2 exceeded the headline inflation value, the fact being caused by reduced prices for fuel and lubricants and moderate increase in prices for fruit and vegetables (Figure 4).

Figure 4

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



Source: Statistics Agency of the Republic of Kazakhstan

2.3. Prices in the Real Sector of Economy

2.3.1. Prices in the Industry

In Q1 2009 prices of industrial producers decreased by 6.7% (Q12008 – growth by 6.3%), continuing the falling trend which was observed during two previous periods. The output became cheaper by 7.3%, including the products of interim consumption – by 8.4%, production goods – by 6.3%. Consumer goods and services of industrial nature appreciated by 3.7% and 1.8%, respectively.

In January-March 2009 the prices of enterprises in the mining industry reduced by 7.5% (in Q1 of 2008 there was the 6.7% growth), the reduction being caused by the drop of prices for individual types of primary energy resources. So, the reduction of prices for oil extraction was 3% in the 1st quarter of 2009 (in the respective period of 2008 there was the growth of 6.6%), prices for gas condensate decreased by 24.4% (growth by 4.2%). In general, energy resources have depreciated by 5.3% over the period from January through March 2009 whereas in the respective period of 2008 their price increased by 5.9%.

The reduction of prices in the manufacturing industry amounted to 7.1% and was caused both by depreciation of refined products by 5.2% (oil, diesel fuel, liquid butane and propane) and the situation in the metallurgical industry where the fall in prices for ferrous metals was not fully compensated by the growth in prices for non-ferrous metals. Prices in the metallurgical industry decreased by 15%, while they dropped by 34.4% in the production of cast iron, steel and ferroalloys and increased by 16.5% in the production of non-ferrous metals. In the 1st quarter of 2008 the growth in prices for refined products was 3.2%, for metallurgical production - 8%.

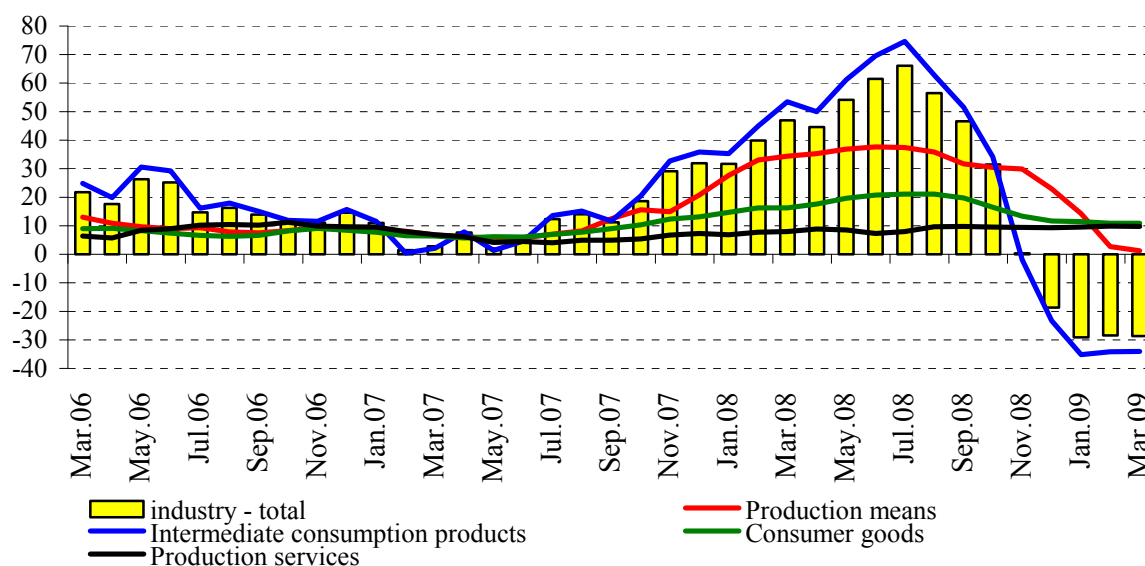
Foodstuff including drinks manufactured by the domestic enterprises appreciated by 0.5% in the 1st quarter of 2009 (in Q1 2008 there was the growth of 5.9%).

Prices and tariffs in the production and distribution of electric energy, gas and water increased by 2.3% in the 1st quarter of 2009 (in Q1 2008 there was the growth of 0.7%).

In March 2009 the reduction of prices in the industrial production accounted for 28.6% in annual terms (March 2009 to March 2008). The production manufactured over the period depreciated by 30.5%, including the products of interim consumption - by 34.1%. The annual growth in prices for consumer goods, services of industrial nature and production goods accounted for 10.9%, 9.8% and 1.2%, respectively (Figure 5).

Figure 5

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



Source: Statistics Agency of the Republic of Kazakhstan

2.3.2. Prices in Agriculture

In the 1st quarter of 2009 prices for agricultural products increased insignificantly, by 0.1% (Q1 2008 – by 6.1%). Dynamics of prices in agriculture was impacted by their appreciation for plant production - by 0.2% and depreciation in stock-breeding – by 0.1%.

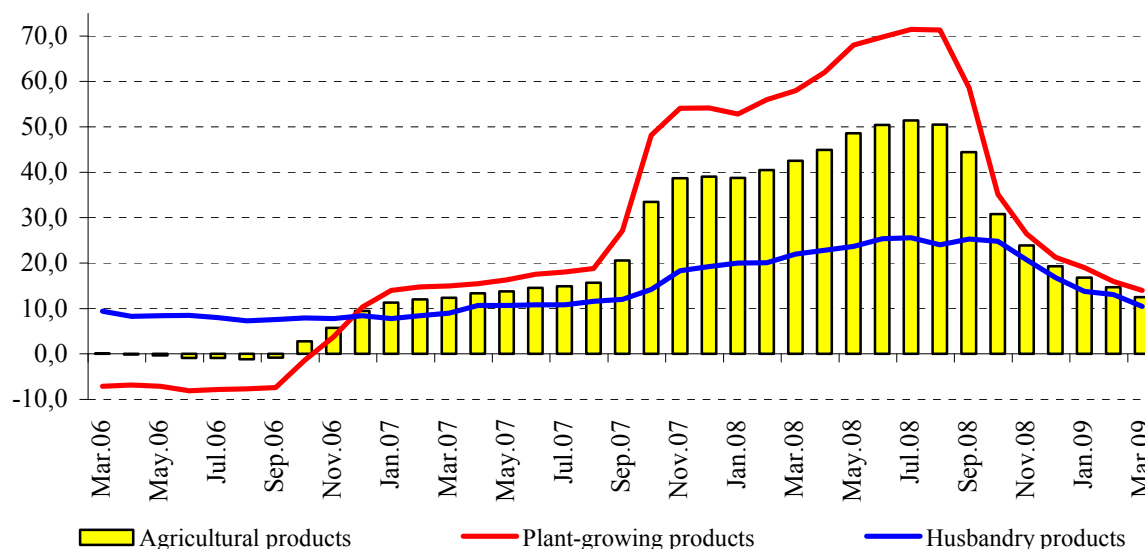
The increase in prices for plant production in the reviewed period was caused by the growth of prices for vegetables – by 3.5% and grains – by 0.1%.

Among the animal products over January-March 2009 unpasteurized milk appreciated by 2.8%, meat from livestock and poultry – by 2.4%, eggs became cheaper by 16.8%.

Based on March 2009 the annual growth in prices for agricultural products slowed down amounting to 12.5% (Q1 2008 – 42.5%). The prices for plant production appreciated by 14% (by 58%), animal products – by 10.5% (by 22%) (Figure 6).

Figure 6

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



Source: Statistics Agency of the Republic of Kazakhstan

2.3.3. Enterprise Monitoring

In the 1st quarter of 2009, as compared to the previous quarter, the demand for final products of enterprises reduced significantly in the economy as a whole. This is evidenced by a generalized indicator – the diffusion index of the change in the demand for final products of the sector which was 31.9 having reduced well below the 50 mark (Figure 7).

The reduced demand for final products was indicated by 46.8% of interviewed enterprises (in Q4 2008 – 37.2%), the increased demand – 10.5% (in Q4 2008 – 16.8%).

The reduction in the demand occurred in all sectors of the economy, except for «production and distribution of electric energy, gas and water». The largest reduction in the demand was observed in the sectors such as «trading», «hotels and restaurants», «manufacturing industry» and «construction».

In the second quarter of 2009, as compared to the previous quarter, the demand for the final products in the economy as a whole is expected to remain virtually unchanged: the diffusion index of the change in the demand was 49.8. At the same time, 18.6% of enterprises participating in the poll anticipate the increase in the demand for final goods, 18.9% of enterprises anticipate the reduction, and the rest of the enterprises (62.5%) do not anticipate any change in the demand.

The situation with the prices for final products was characterized in the 1st quarter of 2009 by some growth after their reduction in the previous quarter: the diffusion index of the change in prices for final products increased up to 51.8 (as compared to 48.1 in the 4th quarter of 2008). The growth of prices in the 1st quarter of 2009 was noted by 22.2% of enterprises (in Q4 – only 16.4%), and the percentage of enterprises whose products' prices decreased accounted for 18.7% (in the previous quarter – 20.3%). The increase of prices was observed virtually in all sectors of economy except for such sectors as «agriculture», «hotels and restaurants» and «mining industry».

In the second quarter of 2009 an insignificant increase of the diffusion index of the change in price for final goods is expected as compared to the previous quarter (up to 54.8) thus meaning that enterprises expect further growth of prices. In the first instance, this is

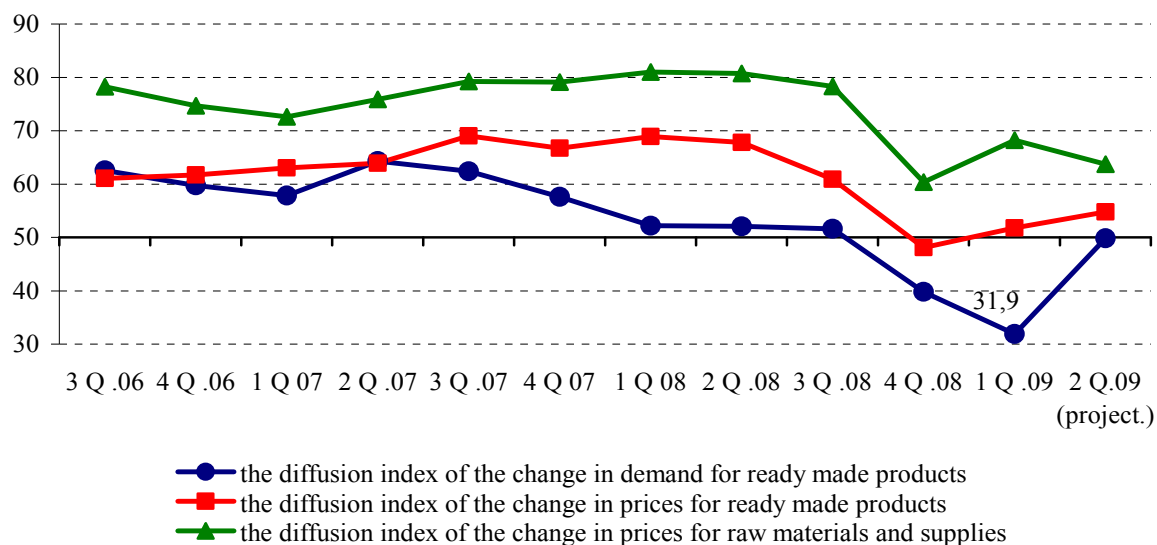
related to a visible decrease of the percentage of enterprises that indicated the reduction in prices (from 18.7% to 7.9%), despite the reduced number of enterprises that expecting price increase for their production (from 22.2% to 17.5%). At the same time, the percentage of enterprises which do not anticipate the change in prices notably increased (from 59.1% to 74.7%).

In the first quarter of 2009 the diffusion index of the change in prices for raw materials and supplies increased to 68.2 (from 60.4 in Q4 2008) demonstrating a noticeable increase in prices for raw materials and supplies in the economy as a whole. Alongside with that, the largest growth of prices occurred in the sectors such as «hotels and restaurants», «production and distribution of electric energy, gas and water» and «agriculture». In the economy on the whole, the number of enterprises that indicated the growth of prices for raw materials and supplies notably increased to 51.4% (from 40.3% in the fourth quarter of 2008). 33.8% of the interviewed enterprises stated the price stability whereas in the fourth quarter of 2008 their percentage was 40.2%. The percentage of enterprises that indicated the reduction in prices for raw materials and supplies decreased to 7.6% (from 13.2% in Q4 2008).

The diffusion index of the change in prices for raw materials and supplies went down to 63.7 in Q2 2009 thus implying that the enterprises anticipate further growth of prices but with lower rates. At the same time, despite a significant reduction (from 51.4% to 37.2%) the percentage of enterprises that anticipate the price growth in Q2 2009 remains high, the percentage of enterprises which anticipate that prices for raw materials and supplies would remain unchanged increased (from 33.8% to 52.4%), the percentage of enterprises anticipating the decrease of this indicator went down (from 7.6% to 2.8%) (Figure 7).

Figure 7

Diffusion indices of the change in demand and prices



Source: National Bank of the Republic of Kazakhstan

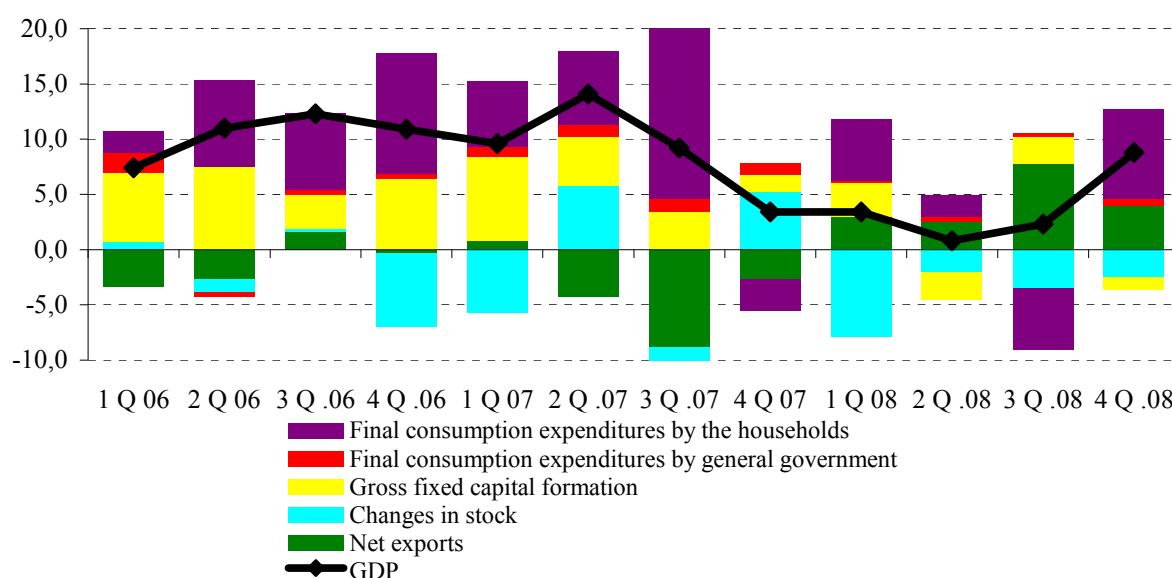
3. Inflation Factors

3.1. Aggregate Demand

In the fourth quarter of 2008 the growth rates of GDP consumption were estimated as 8.8% as compared to the respective quarter of 2007 being significantly higher than the same indicator in the previous quarter (2.3%). This was caused by a dramatic increase of final consumption expenditures by the households, whose contribution to the growth of GDP, after the reduction to (-)5.6% in the previous quarter increased to 8.1% in the reporting period (Figure 8).

Figure 8

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



Source: Data from the Statistics Agency of the Republic of Kazakhstan, calculations by the National Bank of the Republic of Kazakhstan

3.1.1. Individual Consumption and Investment Demand

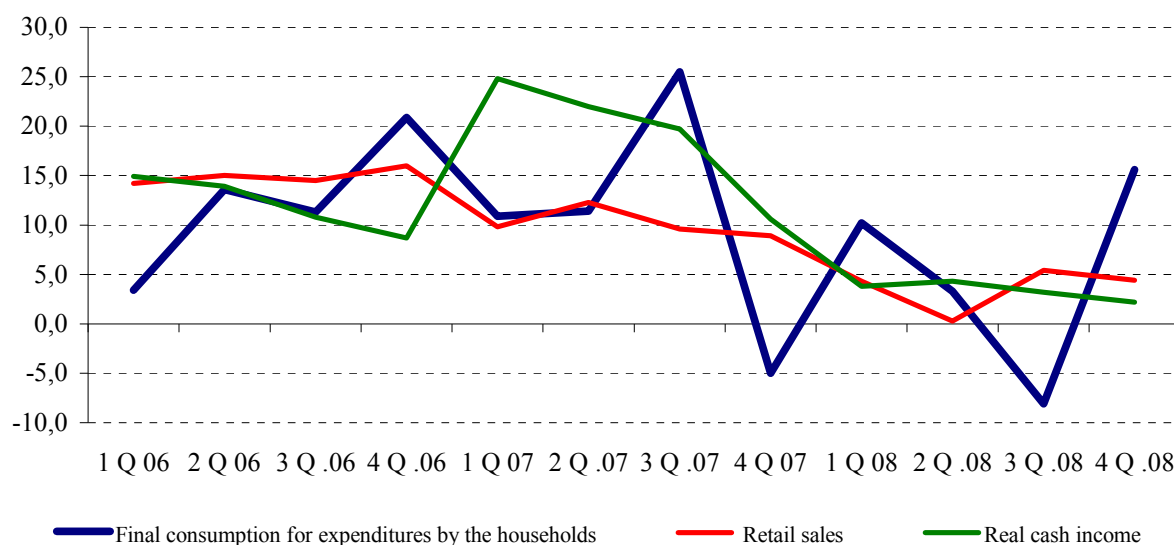
Household spending on final consumption increased dramatically in the fourth quarter of 2008 as compared to the respective period of 2007 - by 15.6% (in Q3 the reduction was 8.1%).

Based on Q4 2008 (as compared to the respective period of 2007) per capita cash income increased by 2.2% in real terms (Q3 2008 – growth by 3.2%), retail sales increased by 4.4% (in Q3 2008 – by 5.4%) (Figure 9).

Significant growth in the consumption of households, in the absence of adequate increase in income, was secured both due to the use of own cash savings of the population and deposit amounts withdrawn from deposit accounts. Over the 4th quarter of 2008 deposits of the population with the banks (including non-residents' deposits) decreased by 3%, or by KZT 46,2 bln.

Figure 9

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



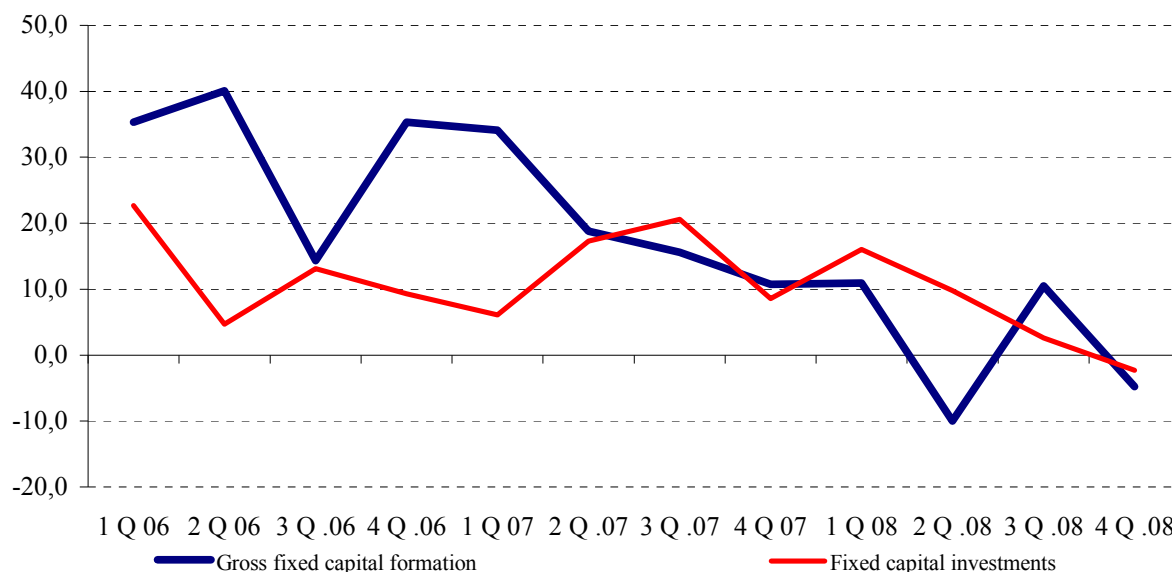
Source: Data from the Statistics Agency of the Republic of Kazakhstan, calculations by the National Bank of the Republic of Kazakhstan

Deterioration in the investment demand observed throughout 2008 was characterized by a gradual slow-down in the growth rates of fixed capital investments which turned into reduction in Q4 2008. Quantum index of investments, after its growth in the beginning of the year by 16%, decreased by 2.3% in the reporting period (relative to Q4 2007).

Expenditures for gross fixed capital formation in the GDP structure, after their growth in a prior quarter by 2.6%, in Q4 2008 also reduced significantly (as estimated, by 4.8%) (Figure 10).

Figure 10

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



Source: Data from the Statistics Agency of the Republic of Kazakhstan, calculations by the National Bank of the Republic of Kazakhstan

3.1.2. Government Consumption

Spending on final consumption by general government in the fourth quarter of 2008 as compared to the respective period of 2007 increased, according to the estimate, by 7.8% (in Q3 2008 – by 3.8%).

As a whole, in the fourth quarter of 2008 the state budget spending was KZT 1615 7 bln. or 39.4% of GDP. It increased by 70.7% as compared to the numbers for the respective period of 2007. Such significant growth of spending resulted from the 3.6 times increase of costs for the purchase of financial assets (mainly for building up the equity of the JSC “National Wealth Fund “Samruk-Kazyna” as well as for building up and increasing the equity of the JSC “Stressed Assets Fund”), as well as for extending budget credits in the amount exceeding that of Q4 2007 by 73.7% (primarily, to finance the implementation of the State Program of Residential Construction in the Republic of Kazakhstan as well as to meet commitments under the government guarantees).

Current state budget expenditures totaled to KZT 599 2 bln. being by 21.4% higher than in the respective period of 2007. Within current expenditures the following items increased significantly: payments of interest on domestic loans (58.4%), as well as current transfers – to abroad (53.4%), to legal entities and individuals (31.9% and 32.4%, respectively) and other current transfers (40.5%).

Capital expenditures of the state budget in the fourth quarter of 2008 increased by 10.9% compared to the respective period of 2007. It should be mentioned that the increase in capital transfers within the country was 93.6% while capital transfers to abroad decreased by 77.9%. Budget credits increased by 73.7% in Q4 2008, spending for the purchase of financial assets increased by 3.8 times.

In Q4 2008 state budget revenues amounted to KZT 1514 5 bln. or 35.3% of GDP. They increased by 78.3% compared to the respective period of the previous year. In the fourth quarter of 2008 tax revenues accounted for 56.2% of the state budget revenues, official transfers – 40.3% (in the third quarter of 2008 the percentage of transfers in the revenues was

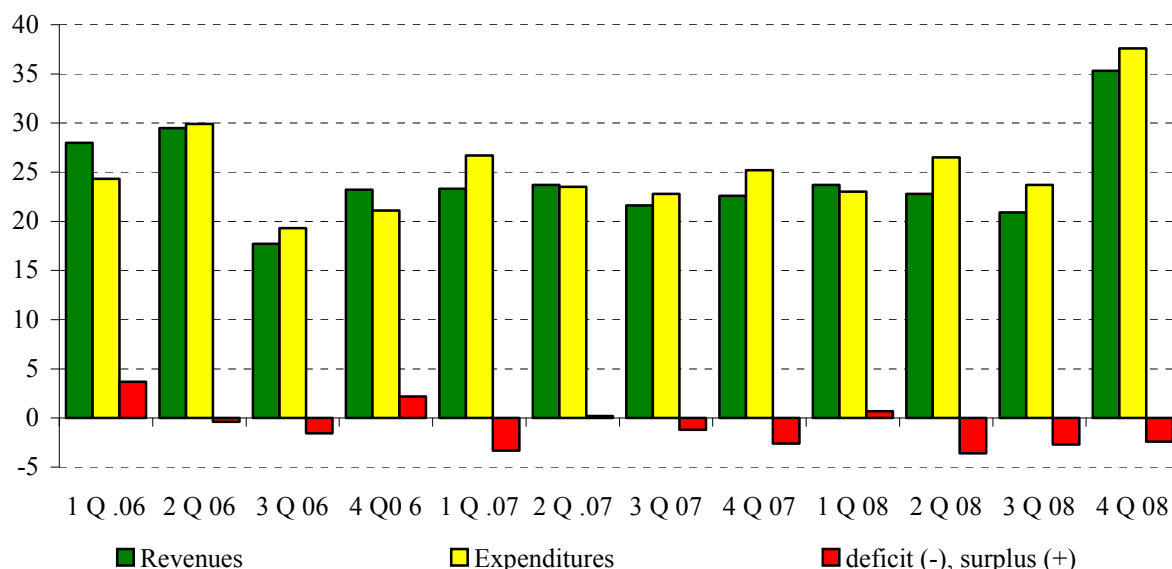
13.2% only). Revenues of official transfers increased by 21 times as compared to the respective period of 2007. This was the result of the target transfer withdrawal of KZT 607,5 bln. from the National Fund to the state budget in Q4 of 2008 (the transfer was used for capitalization of the JSC “National Wealth Fund “Samruk-Kazyna”). As compared to the fourth quarter of 2007, non-tax revenues decreased by 28.9% in Q4 2008, while proceeds from the sale of fixed capital also dropped, by 13.5%, respectively.

As compared to the respective period of 2007, in Q4 2008 the individual income tax revenues increased by 15.9%, corporate income tax revenues – by 3.2%, proceeds from the use of natural resources decreased by 46.5%, and the reduction in social tax revenue amounted to 27.1%.

As the expenditures were in excess of revenues to the state budget, the deficit of KZT 101 2 bln. (-2,4% of GDP) showed up in Q4 2008 whereas the deficit in Q4 2007 amounted to KZT 97 4 bln. (Figure 11).

Figure 11

Execution of the state budget, as % of GDP



Source: Ministry of Finance of the Republic of Kazakhstan

The deficit was funded from the following sources: receipt of loans – KZT 150 0 bln. (loan repayments accounted for KZT 60 7 bln. in the reporting quarter), the use of available balances of budget resources – KZT 11 9 bln.

Domestic government debt for Q4 2008 increased to KZT 820 2 bln. i.e. by 12.1% as compared to the result of Q3 2008 and was secured with the issue of short-term and long-term (saving) treasury obligations as well as long-term treasury bonds.

External government debt in Q4 2008 increased from US\$ 1502 6 mln. in Q3 to US\$ 1618 1 mln., i.e. by 7.69%.

3.1.3. External Sector

– World Prices

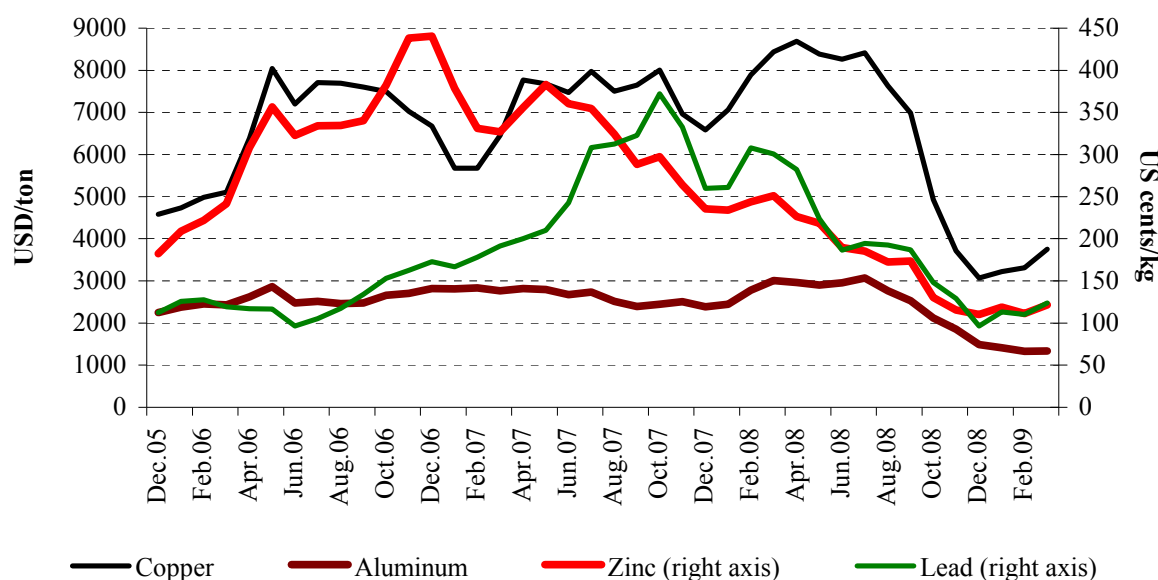
In the first quarter of 2009 the situation in the global commodity markets had multidirectional trends. There was a growth in prices for oil, some metals while prices for wheat continued to decrease.

So, in January-March 2009 world prices for copper grew up by 22.1% and in the period on average were at US\$ 3429 per ton, for lead – by 28.7% and 116 cents per kilo,

respectively, and for zinc – by 10.5% and 117 cents per kilo, respectively. At the same time, in Q1 2009 prices for aluminum decreased by 10.3% and on average were at US\$ 1360 per ton (Figure 12).

Figure 12

Dynamics of world prices for metals

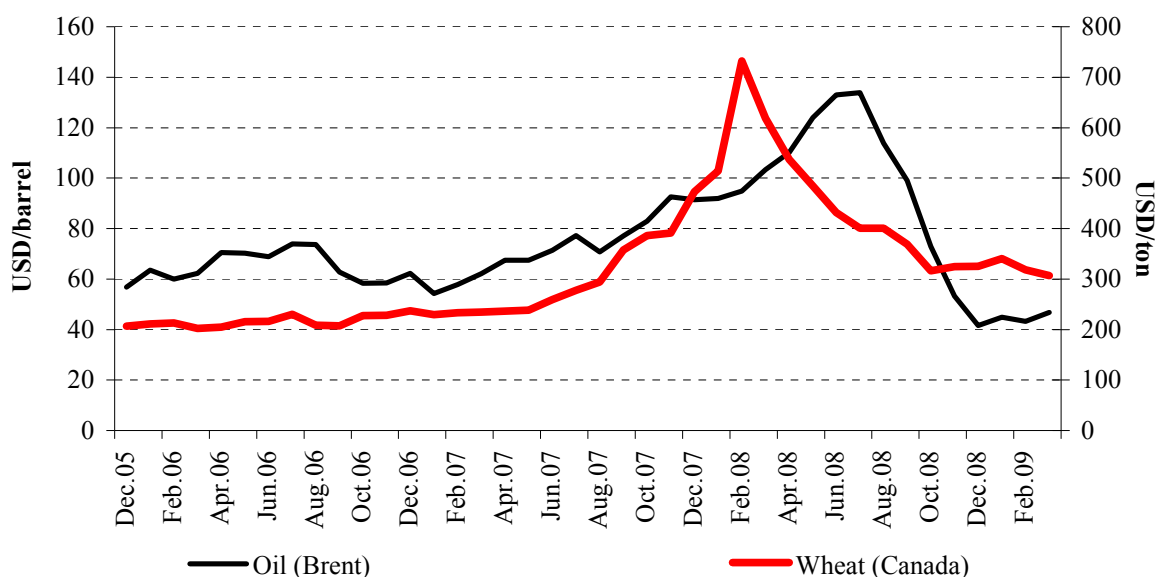


Source: World Bank

In January-March 2009 global prices for wheat were decreasing: during the period on average they were at US\$ 321.9 per a ton. For Q1 as a whole the world price for wheat (Canada) decreased by 5.6% (Figure 13).

In January-March 2009 oil prices in the global markets remained volatile: during the period they were fluctuating within the range of US\$ 39.1-52.3 per barrel. According to the World Bank, in Q1 2009 as a whole oil prices (Brent) grew up by 12.7% and in March 2009 they were at US\$ 46.8 per barrel on average (Figure 13).

Figure 13

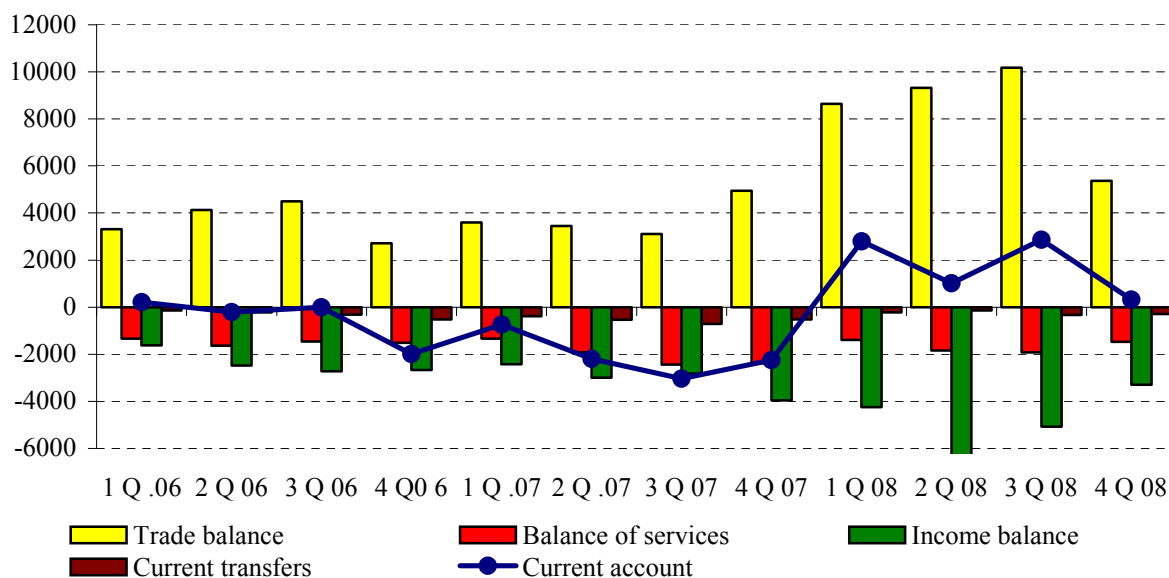
Dynamics of world prices for oil (Brent), and wheat (Canada)

Source: World Bank

– Balance of Payments

Based on Q4 2008, there was a positive current account balance of US\$ 3153 mln. (Figure 14).

Figure 14

Current account balance, US\$ mln.

Source: National Bank of the Republic of Kazakhstan

Export proceeds in Q4 2008 increased by 8.0% and spending on commodity imports increased by 7.8% compared to Q4 2007. Positive trade balance increased by US\$ 423 mln. and was at the level of US\$ 5.4 bln., thus fully offsetting the net outflow of resources on other components of the current account. The deficit in the balance of services decreased by 38% versus Q4 2007 and amounted to US\$ 1.5 bln., while the deficit in the income balance

decreased by 23.2% to US\$ 3.3 bln. Payments to nonresidents under current transfers amounted to US\$ 285.5 mln. having reduced by half as compared to Q4 2007.

The net inflow of resources on financial account operations in Q4 2008 amounted to US\$ 1.9 bln. (in Q4 2007 – net receipt of US\$ 53.6 mln). Foreign assets of residents grew up by US\$ 0.9 only being by 6.2 times less than in the respective period of 2007. Foreign liabilities of residents increased by US\$ 2.7 bln. (nearly twice as less than in Q4 2007).

As a result, negative balance on the balance of payments operations for Q4 2008 was US\$ 2.2 bln. (in Q4 2007 there was a deficit of US\$ 1.6 bln.).

– Terms of trade and real effective exchange rate

In Q4 2008 the aggregate terms of trade index was by 17% less than the respective value for the fourth quarter 2007. Alongside with that, terms of trade with the Euro zone countries deteriorated by 23%, and those with Russia – by 12% (Table 1).

Table 1

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

	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08
Export prices	6	8	8	32	56	61	62	8
Import prices	19	18	12	18	28	45	57	30
Terms of trade	-10	-8	-4	12	20	12	3	-17
including:								
The Euro zone countries								
Export prices	5	2	-1	32	54	62	64	0
Import prices	28	22	2	10	16	29	52	27
Terms of trade	-18	-17	-3	19	28	28	9	-23
Russia								
Export prices	0	19	17	28	30	38	35	9
Import prices	15	14	17	17	43	49	48	23
Terms of trade	-13	4	0	9	-9	-8	-9	-12

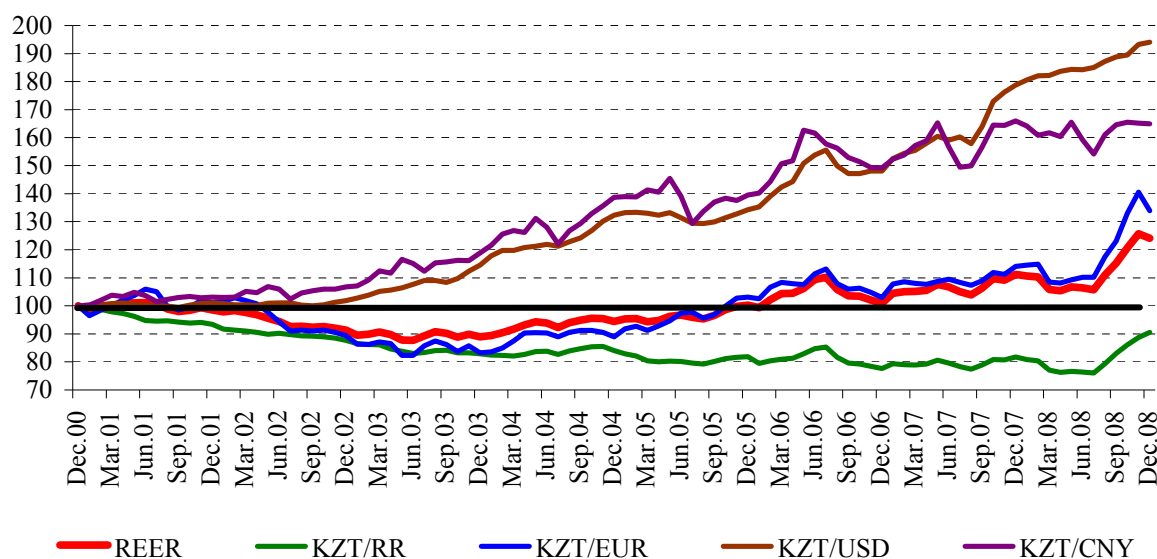
Source: National Bank of the Republic of Kazakhstan

Based on Q4 2008 the index of the real effective exchange rate of the Tenge appreciated by 11.6% as compared to the previous period. At the same time the Tenge has appreciated by 12.3% in respect of the CIS currencies basket and by 11.4% - to other currencies basket.

Over the fourth quarter of 2008 the Tenge has appreciated in relation to the US Dollar by 2.8%, Euro – by 16.0% and the Russian ruble – by 11.3% in real terms as compared to the previous period (Figure 15).

Figure 15

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



Source: National Bank of the Republic of Kazakhstan

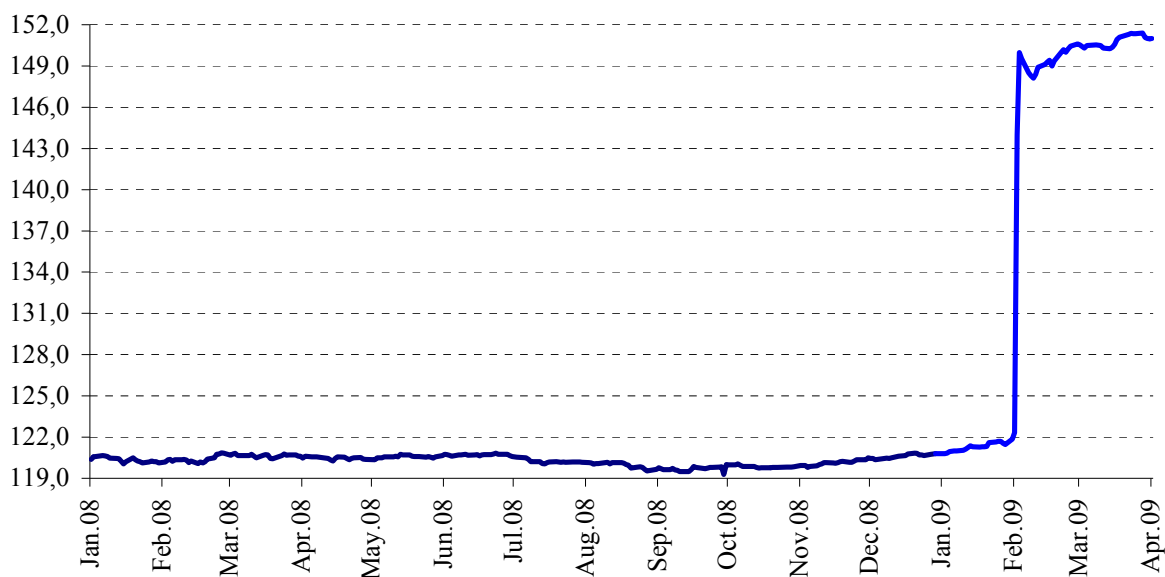
Raw commodities dominate in the structure of foreign trade in Kazakhstan, with the dynamics of their trade turnover being determined by conditions in the global commodities markets, significantly limiting the potential for appreciation of the Tenge to have a negative impact on the results of trade operations. The consumer goods that are the most sensitive to a relative change in the exchange rate comprise a small portion in the country's trade turnover (27% of imports based on the results of the reporting period). At the same time, the consumer imports, with the Russian Federation being their major supplier, may get an additional material impetus for growth due to the increased trend of the Russian ruble's depreciation against the Tenge.

– Nominal exchange rate of the Tenge

On February 4, 2009 the National Bank of the Republic of Kazakhstan has implemented the Tenge devaluation. A new currency band was fixed: 150 Tenge per US Dollar with fluctuations of $\pm 3\%$ or ± 5 Tenge. As a result of the stock exchange auction, on February 4, 2009 the exchange rate of the Tenge changed from KZT 122.32 to KZT 143.98 per US Dollar. The following weeks the exchange rate was fluctuating both towards the Tenge appreciation and depreciation.

Average weighted stock exchange rate of the Tenge for the first quarter of 2009 made KZT 139.13 per one Dollar. The stock exchange price at the end of the period was KZT 151.08 per one Dollar. Since the beginning of the year, the Tenge has depreciated against the US Dollar by 25.8% in nominal terms. (Figure 16).

Figure 16

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

Source: National Bank of the Republic of Kazakhstan

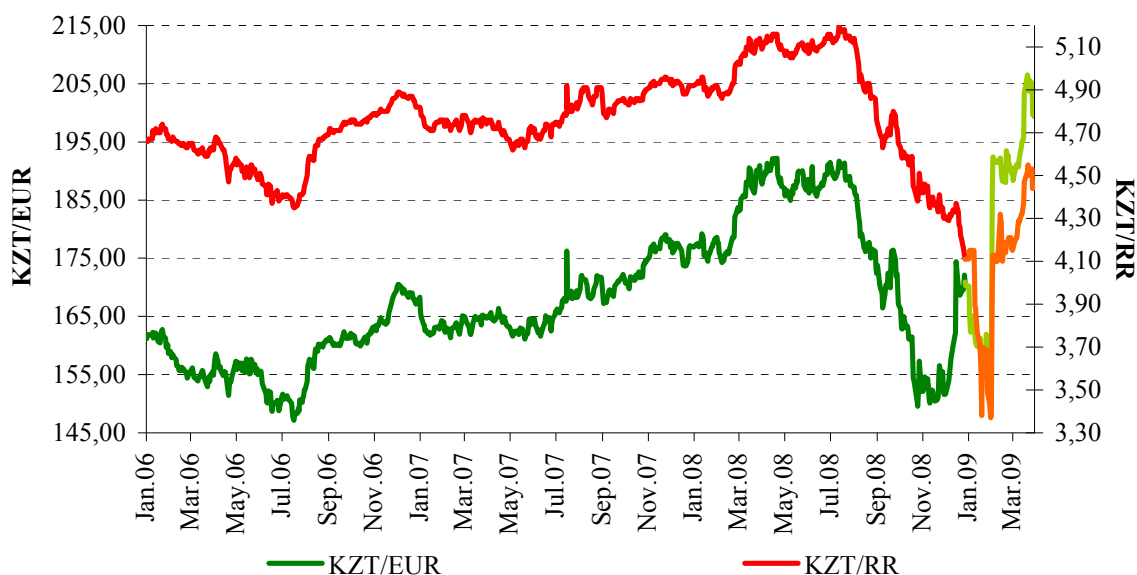
In January, February and March the Tenge appreciated against the US Dollar by 0.6%, 23.8%, and 0.6%, respectively.

Since the volumes of transactions in the Euro and the Russian ruble remain insignificant in the stock exchange segment of the domestic foreign exchange market, the rate of the Tenge versus those currencies is calculated based on the cross-rate to the US Dollar. Accordingly, the dynamics of the exchange rate of the Tenge versus 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.

Generally, the official exchange rate of the Tenge versus the Euro and the Russian ruble has depreciated over the first quarter of 2009 by 16.9% and 8.0%, respectively (Figure 17).

Figure 17

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



Source: National Bank of the Republic of Kazakhstan

3.2. Production

The GDP output in the fourth quarter of 2008 amounted to KZT 4132.9 in current prices. Affected by the negative impact of reduced production in agriculture, construction, financial activities, the slow-down of the growth rates in the industry, trade, transport and its increase in the real estate sector and communications, GDP, by estimate, has increased by 1% in real terms compared to the fourth quarter of 2007 (Figure 18).

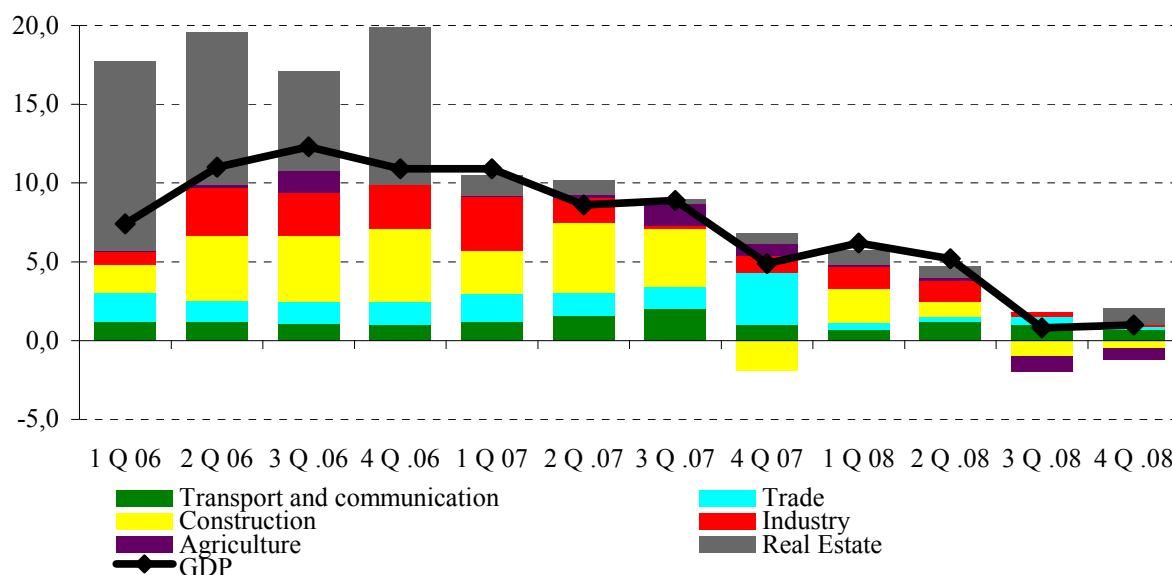
In the reporting period the physical index of agriculture in real prices, as compared to the fourth quarter of 2007 decreased by 8.8%, construction - by 4.3%, financial activities – by 4.1%, negatively contributing to the GDP buildup.

Growth rates in such sectors as industry, trade, transport slowed down significantly with their indices decreasing to the level of 100.3%, 101.2%, and 108.6%, respectively.

Nonetheless, there was an increase in the growth rate in the provision of communication services and on real estate transactions where indices made up 103.2%, and 109.7%, respectively.

Figure 18

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



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

3.3. Labor Market

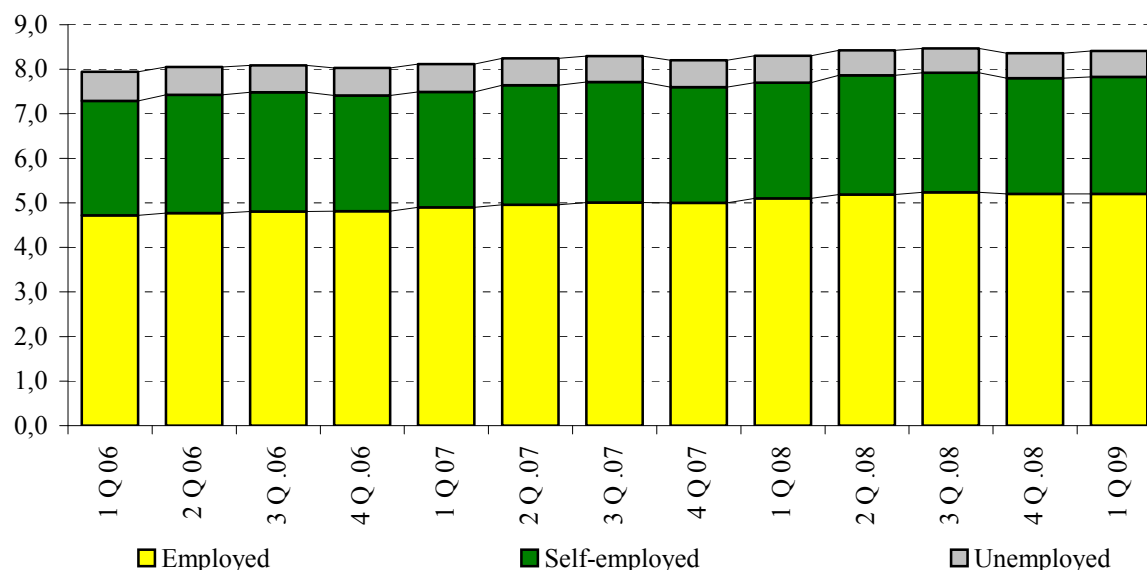
3.3.1. Employment and unemployment

In the first quarter of 2009 a number of people employed in the economy decreased insignificantly. They totaled 7.8 mln. individuals being by 0.4% less than in the previous period. The number of employees decreased by 0.6%, to 5.2 mln. individuals, the number of self-employed has not virtually changed amounting to 2.6 mln. individuals.

In the structure of employees of public and non-public institutions 4.2 mln. individuals were working (81.2% of all employees), employees working for natural persons – 0.7 mln. individuals (12.8%), at farms – 0.3 mln. individuals (6%).

In the first quarter of 2009 a number of the unemployed was 582.8 thousand individuals having increased by 4.2% as compared to the previous period, and by 1.6% - versus Q1 2008 (Figure 19).

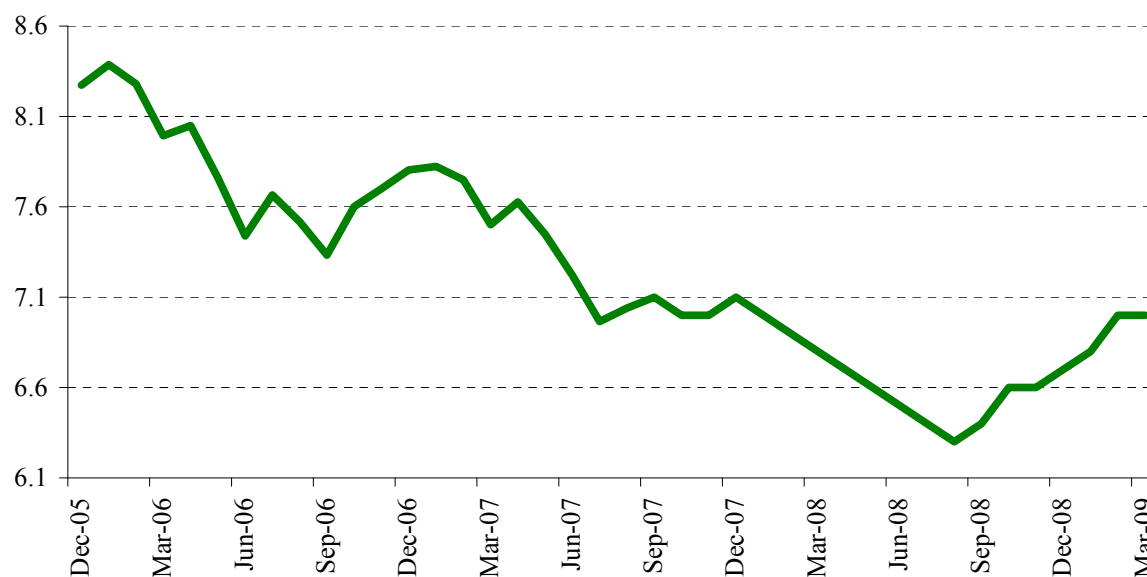
Figure 19

The structure of economically active population, mln. individuals

Source: Statistics Agency of the Republic of Kazakhstan

In Q1 2009 the unemployment level increased from 6.6% to 6.9% (Figure 20).

Figure 20

Actual unemployment rate, %

Source: Statistics Agency of the Republic of Kazakhstan

3.3.2. Wages and productivity

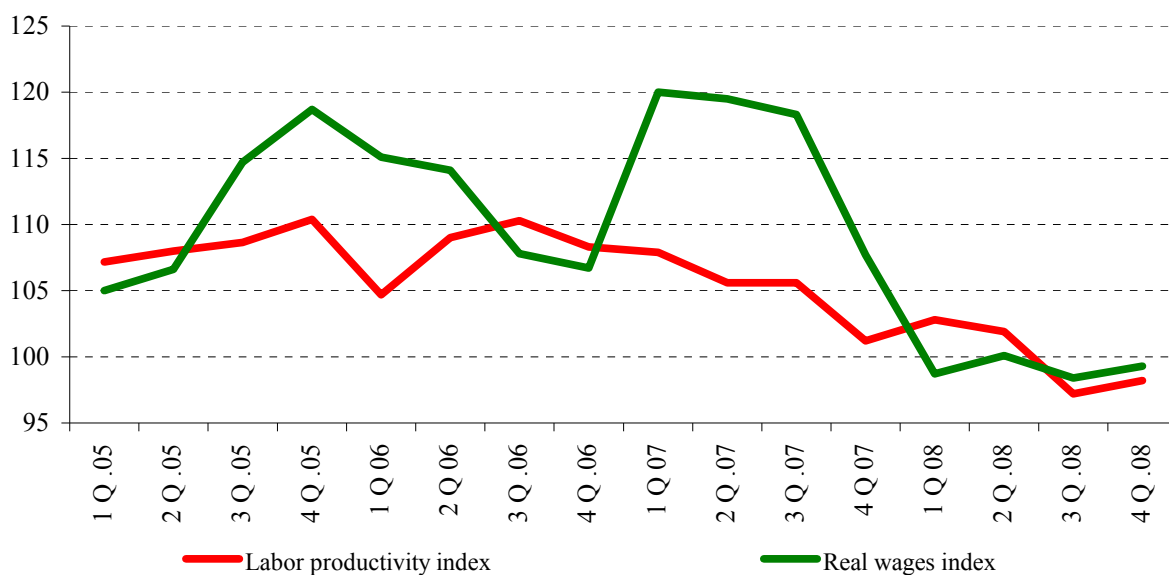
In the fourth quarter of 2008 nominal wages continued to grow as they did during 2008, though the dynamics of this rate reduced significantly. Nonetheless, as compared to the number for the respective period of 2007, the average monthly salaries and wages increased by 10.7% (Q3 2008 – growth by 17.5%).

The slowdown of the growth rates in consumer prices by the year-end that have direct impact on the purchasing capacity of the population mitigated the inflation pressure to some extent resulting in the reduction of salaries and wages in real terms by 0.7% only (versus the respective quarter of 2007), whereas a quarter before the reduction was 1.6%.

High rates of slowdown in the GDP growth against the backdrop of insignificant reduction of a number of people employed in the economy resulted, according to the National Bank's estimate, in the reduction of labor productivity by 1.8% in Q4 2008 (Figure 21).

Figure 21

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



Source: Statistic Agency of the Republic of Kazakhstan

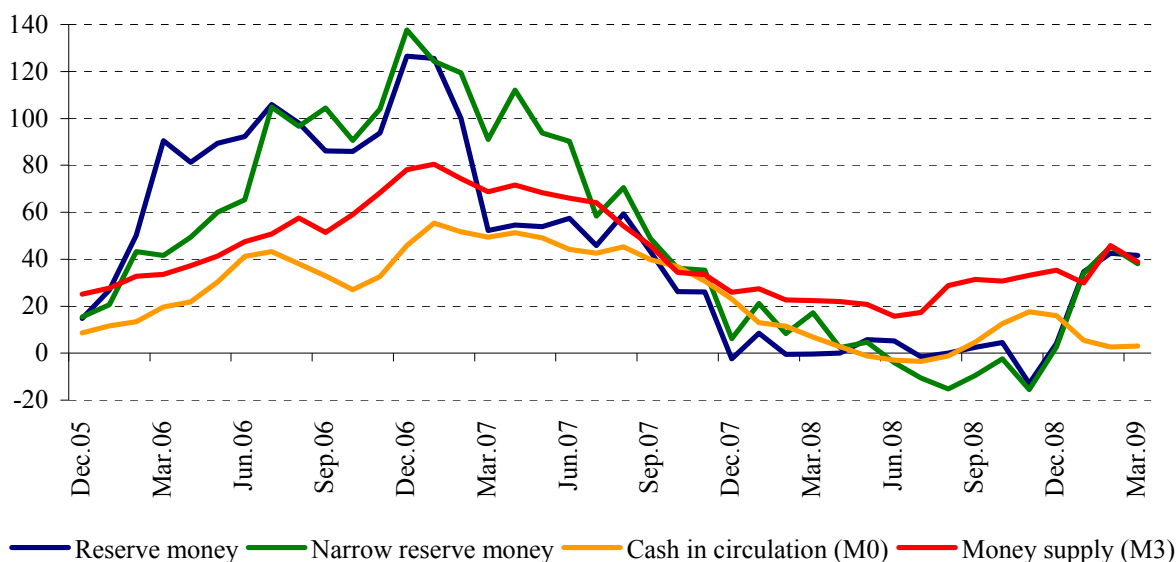
4. Money Supply

4.1. Monetary Aggregates

In the recent years as a rule a seasonal slowdown of the growth rates of monetary aggregates was observed at the beginning of each year. However, in Q1 2009 the situation was different. So, there was a significant expansion of reserve money in the reporting period as compared to Q4 2008. In annual terms, moderate growth was observed for cash in circulation only whereas reserve money and money supply are growing at a faster pace (Figure 22).

Figure 22

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



Source: National Bank of the Republic of Kazakhstan

4.1.1. Reserve Money

Reserve money at the end of March 2009 amounted to KZT 2236,8 bln. In Q 1 2009 the expansion of reserve money was 46.7%. The main reasons for the expansion of reserve money was the growth in net foreign assets of the National Bank as a result of the growth in the National Bank's claims on banks. Moreover, KZT 600 bln. was credited to the current account of the SWF "Samruk-Kazyna" and NHC "Kazagro" with the National Bank.

Narrow reserve money i.e. reserve money without transferrable deposits of banks with the National Bank have expanded by 38.2% to KZT 2062.6 bln. over the first quarter of 2009.

In March 2009 reserve money expanded by 41.7% as compared to March 2008. This expansion, as mentioned above, was secured by the growth in net foreign assets of the National Bank despite the reduction of international reserves of the National Bank.

So, net international reserves of the National Bank have reduced by 2.2.% to US\$ 18.8 bln. over the first quarter of 2009 compared to the first quarter of 2008.

Net currency reserves (FCC) reduced by 3.0% in March 2009 compared to March 2008 as a result of foreign exchange sales in the domestic foreign exchange market and servicing of the Government's external debt, that were not neutralized by the re-conversion of

the National Fund's assets denominated in foreign currency into currency assets of the National Bank and by the receipt of currency to the Government's accounts with the National Bank. In addition, foreign currency balances of correspondent accounts of banks with the National Bank reduced. Assets denominated in gold, despite its price in the global markets reduced by 1.5%, increased by 5.2% as a result of conducted transactions.

Net domestic assets of the National Bank increased due to the increase in claims on financial institutions including due to the reduced liabilities to banks, mainly under short-term notes (see. 5. Monetary Policy Instruments and Operations).

Narrow reserve money in March 2009 expanded by 38.0% in March 2009 compared to March 2008 (Table 2).

Table 2

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

	Q2 08	Q3 08	Q4 08	Q1 09
Net international reserves	-5,5	19,1	12,6	-2,2
Net domestic assets	40,9	-51,7	38,2	108,2
Net claims on the Government	57,5	63,3	133,5	-45,6
Claims on financial institutions	66,5	-172,5	53,7	203,8
Claims on the rest of the economy	16,7	3,0	1,6	4,1
Other net domestic assets	-579,8	-26,5	7,1	-99,1
Reserve money	5,2	2,4	4,2	41,7
Narrow reserve money	-4,1	-9,5	2,6	38,0

Source: National Bank of the Republic of Kazakhstan

4.1.2. Money supply

In the first quarter of 2009 increase in the money supply was 6.7% amounting to KZT 6688.4 billion. Net foreign assets of the banking system increased by 56.6%, domestic assets - by 5.1%.

In March 2009 compared to March 2008 money supply growth was 38.9% as a result of significant increase in net foreign assets of the banking system (Table 3).

In the structure of net foreign assets of the banking system net international reserves of the National Bank reduced by 2.2%, net foreign assets of banks increased by 50.7% in March 2008 as compared to March 2008. The growth in net foreign assets of banks was partially caused by revaluation of their volume as a result of devaluation of the Tenge conducted in February 2009. In addition, bank liabilities to non-residents decreased.

Table 3

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

	Q2 08	Q3 08	Q4 08	Q1 09
Net foreign assets	167,3	212,6	242,0	599,2
Domestic assets	14,0	0,2	1,9	10,6
Claims on the Government	689,5	2563,3	159,4	-117,3
Claims on the economy	11,7	5,9	7,1	18,2
Other net domestic assets	-13,8	-26,8	-24,9	-49,3
Money supply	15,7	31,4	35,4	38,9
Cash in circulation	-3,0	4,7	16,0	3,1
Deposits of residents	19,7	37,0	39,1	45,0

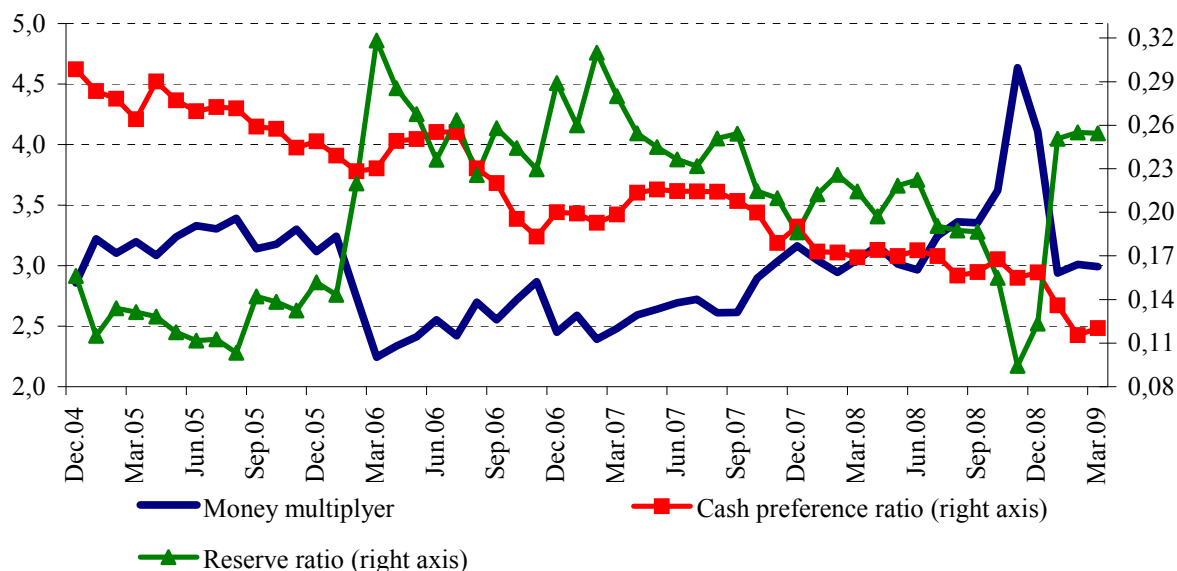
Source: National Bank of the Republic of Kazakhstan

The analysis of dynamics in the key components of money supply shows that outstripping growth rates of residents' deposits in the banking systems were recorded as compared to the growth rates of cash in circulation. As a result, the share of residents' deposits in the structure of money supply increased from 85.5% in March 2008 to 89.3% based on the results of March 2009.

Money multiplier decreased from 3.05 in March 2008 to 2.99 in March 2009 as a result of outstripping expansion rates of reserve money as compared to the growth rates of money supply (Figure 23).

Figure 23

Dynamics of money multiplier and its components



Source: National Bank of the Republic of Kazakhstan

– Cash in Circulation

The volume of cash in circulation in the first quarter of 2009 decreased by 16.3% to KZT 717.9 bln. The main reason for the reduction was the growth in net sales of foreign exchange by exchange offices. Alongside with that the growth in net payroll distributions partially neutralized the reduced volume of cash in circulation.

In March 2009 cash in circulation increased by 3.1% compared to March 2008. This shows that the influence of factors ensuring growth of cash (increase in salaries and wages and pensions prevailed over the influence of factors ensuring its reduction (increase in foreign exchange sales by exchange offices, growth of deposit balances, proceeds from sales of goods, works and services, etc.).

– Residents' Deposits

Residents' deposits amounted to KZT 5970.6 bln. at the end of March having increased by 10.4% over the first quarter of 2009. Corporate deposits increased by 11.4%, deposits of individuals - by 7.8%.

The total volume of residents' deposits with depository institutions grew up by 45.0% in March 2009 compared to the respective month of the previous year. Alongside with that the outstripping growth of corporate deposits as compared to deposits of individuals was observed (Table 4).

Table 4

Dynamics of changes in deposits of residents (as % of the respective period of the previous year)

	Q2 08	Q3 08	Q4 08	Q1 09
Deposits of residents	19,7	37,0	39,1	45,0
<i>Deposits of the population</i>	7,2	9,3	2,8	7,3
Transferable deposits	0,1	8,8	7,7	1,6
<i>in the domestic currency</i>	3,4	13,1	10,1	-1,2
<i>in foreign currency</i>	-17,5	-13,3	-5,5	17,7
Other deposits	8,2	9,3	2,2	7,9
<i>in the domestic currency</i>	-11,2	7,0	-6,9	-38,9
<i>in foreign currency</i>	64,1	13,5	16,1	80,0
<i>Deposits of non-bank legal entities</i>	27,0	53,7	60,2	66,1
Transferable deposits	22,2	32,4	48,2	110,6
<i>in the domestic currency</i>	9,9	30,2	43,0	90,7
<i>in foreign currency</i>	122,2	41,1	71,9	189,4
Other deposits	29,9	68,2	66,0	41,4
<i>in the domestic currency</i>	11,7	39,0	55,7	5,8
<i>in foreign currency</i>	69,5	122,2	85,5	94,1

Source: National Bank of the Republic of Kazakhstan

In the structure of deposits of natural persons there was a significant growth of foreign currency deposits. Largely this can be explained by the impact of devaluation on foreign currency deposits (at first – as a result from devaluation expectations of the people, i.e. overflow from the Tenge to a foreign currency and then – revaluation because of devaluation). So, without account for devaluation, deposits of natural persons reduced by 5.2% at the end of Q1 2009 (instead of 7.3% growth) in annual terms, and corporate deposits increased by 52.5% (instead of 66.1%).

In addition, there is a significant growth in transferable corporate deposits explained by the injections of funds from the Government to support bank operations.

In March 2009 the average weighted interest rate on Tenge deposits of non-bank legal entities was 5.5% (in March 2008 – 6.7%), and on deposits of natural persons – 10.0% (11.4%).

4.2. Financial market

4.2.1. Credits to the economy

In the first quarter of 2009 credits to the economy grew up by 9.1% and amounted to KZT 8142.4 bln. Credits to the general public grew up by 4.5%, to legal entities - by 11.3%.

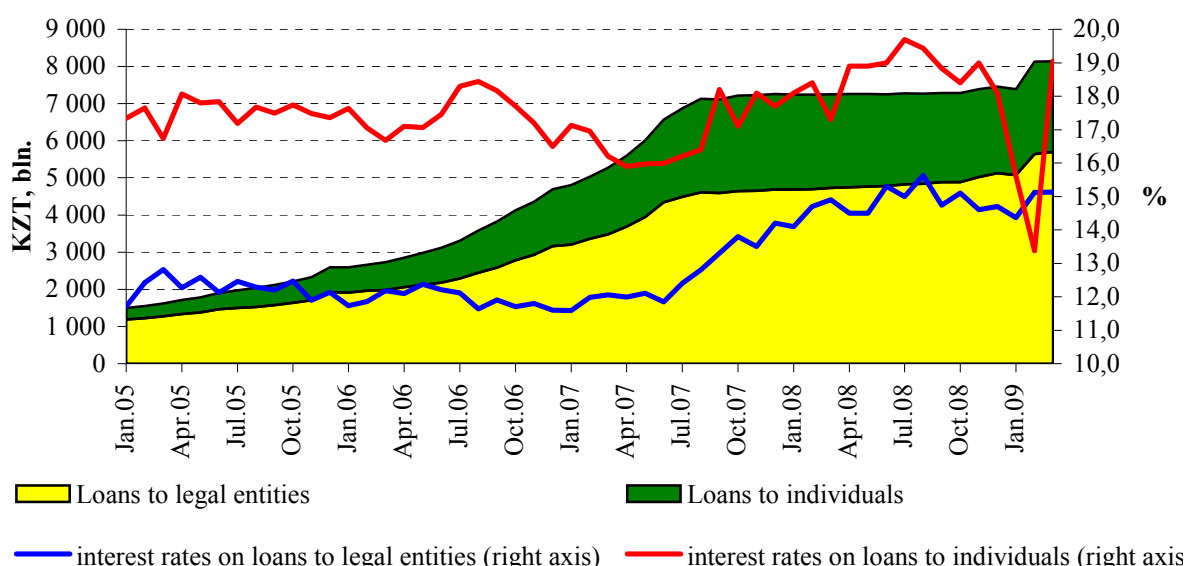
In March 2009 credits to the economy exceeded their volume as of March 2008 by 12.2%, including credits to legal entities – by 20.6% whereas credits to natural persons decreased by 3.4%.

The average weighted rate on credits to legal entities increased from 14.9% to 15.2% in March 2009 compared to March 2008, alongside with that only rates on long-term credits in the domestic currency decreased while they increased on other types of credits.

Rates on credits to natural persons increased from 17.3% to 19.0% in March 2009 compared to March 2008 (Figure 24).

Figure 24

Dynamics of credits to the economy and their interest rates



Source: National Bank of the Republic of Kazakhstan

In the structure of credits in March 2009 the main growth was achieved from credits provided for the acquisition of current assets, new construction and reconstruction as well as other purposes, mainly for refinancing of credits provided earlier. Credits provided for consumer purposes as well as construction and purchases of housing by individuals decreased notably.

– Credits to legal entities

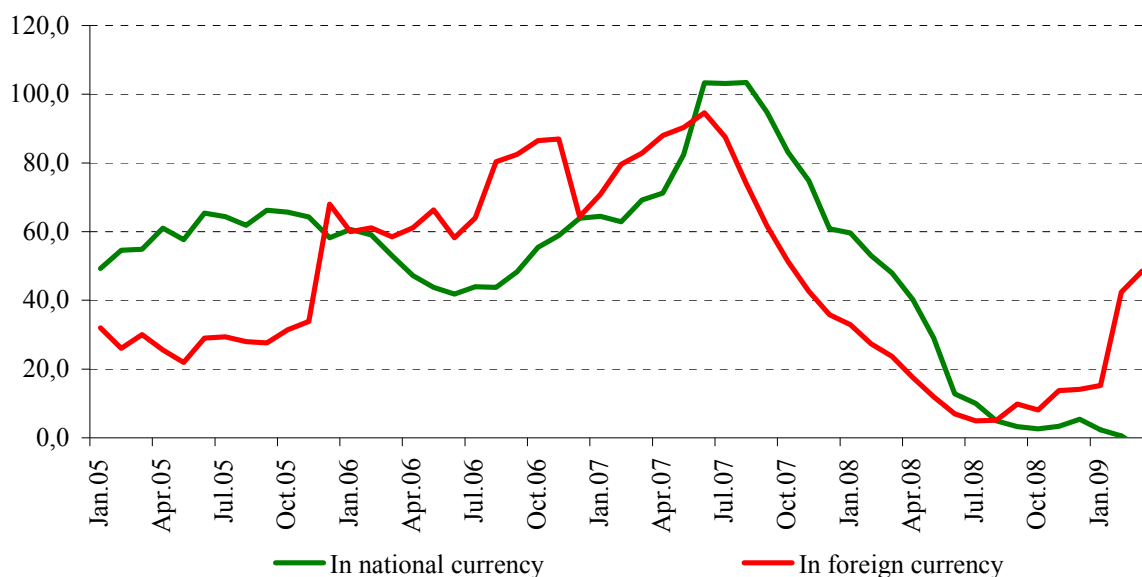
The volume of credits to legal entities increased by 20.6% in March 2009 compared to March 2008. The growth, without accounting for devaluation, was 7.5%.

In Q1 2009 the annual growth in foreign currency credits exceeded the growth of loans in the domestic currency that was caused by revaluation as a result of devaluation (Figure 25).

The percentage of medium- and long-term credits within the total credits to legal entities accounted for 73.6% at the end of March 2009 (in March 2008 – 72.5%).

Figure 25

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



Source: National Bank of the Republic of Kazakhstan

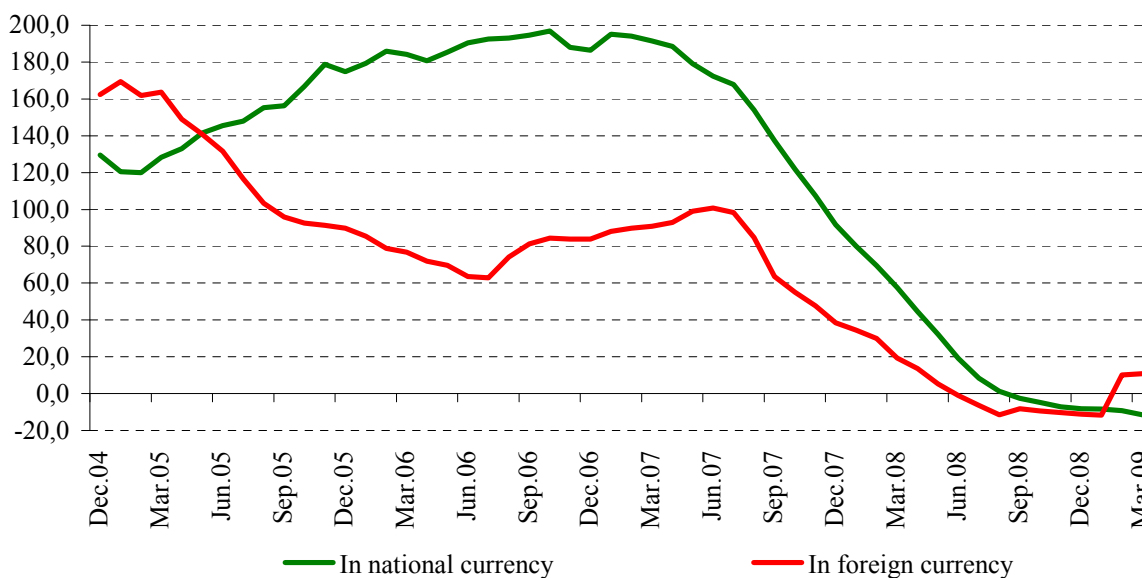
– **Credits to the Population**

Volume of credits to the population in March 2009 as compared to March 2008 decreased by 3.4%. Without account for the devaluation, the decrease amounted to 11.1%.

In the structure of credits to the population, credits in the domestic currency demonstrate the higher rates of reduction. In March 2009 as compared to March 2008 credits to the population in the domestic currency decreased by 11.5% whereas credits in foreign currency increased by 10.7% (revaluation as a result of devaluation) (Figure 26).

Figure 26

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



Source: National Bank of the Republic of Kazakhstan

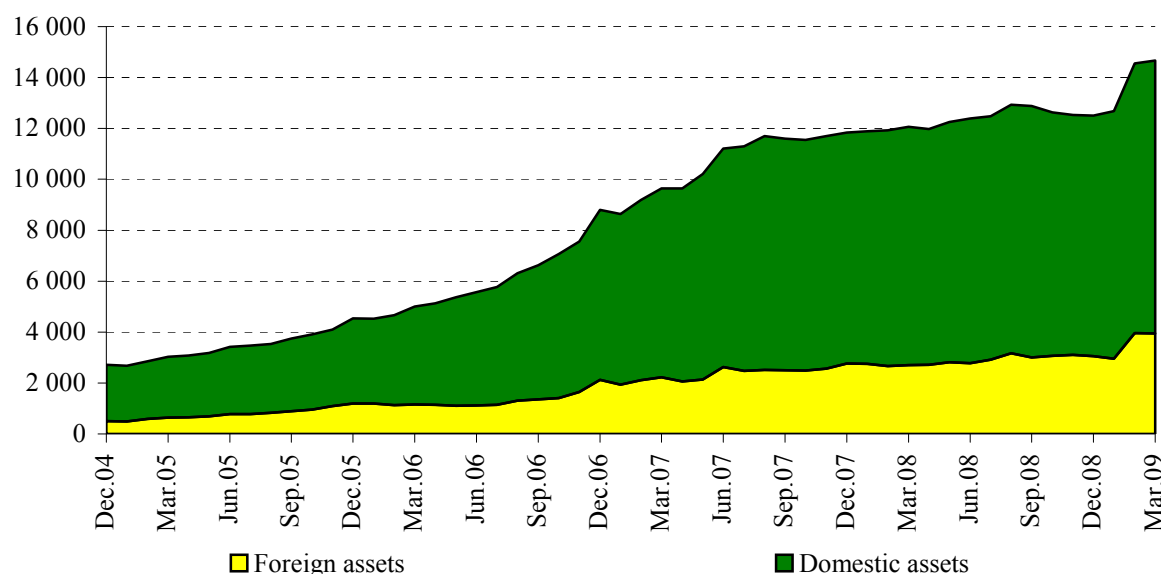
4.2.2. Assets and Liabilities of Banks

– Assets

In Q1 2009 assets of banks calculated in line with the monetary survey increased by 17.3% to KZT 14.7 tln. In annual terms, (in March 2009 compared to March 2008) assets of banks grew up by 21.6% (Figure 27).

Figure 27

Dynamics of bank assets, KZT bln.



Source: National Bank of the Republic of Kazakhstan

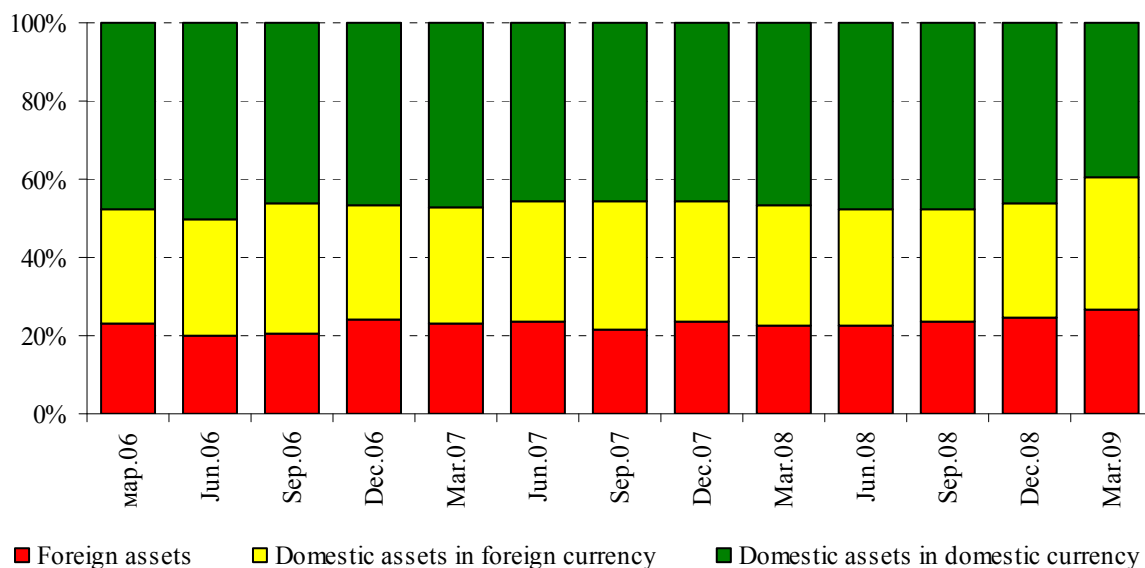
At the end of March 2009 foreign assets of banks accounted for 26.9% of total assets or US\$ 26.1 bln. As compared to December 2008, they increased by 29.5%, and compared to March 2008 – by 45.9%.

In the structure of foreign assets credits to non-residents reached 53.9%, deposits placed with non-residents – 25.5%, and securities of non-residents – 9.8%.

In March 2009 domestic assets comprised 73.1% or KZT 10,7 tln., including domestic assets in the domestic currency comprised 54.0% or KZT 5.8 tln., in foreign currency – 46% or KZT 4.9 tln. (Figure 28). Over January-March 2009 domestic assets have increased by 13.3%, including assets in the domestic currency remained unchanged while assets in foreign currency increased by 34.4%. In annual terms the growth of these indicators made up 14.6%, 2.9% and 32.2%, respectively.

Figure 28

Structure of bank assets, %



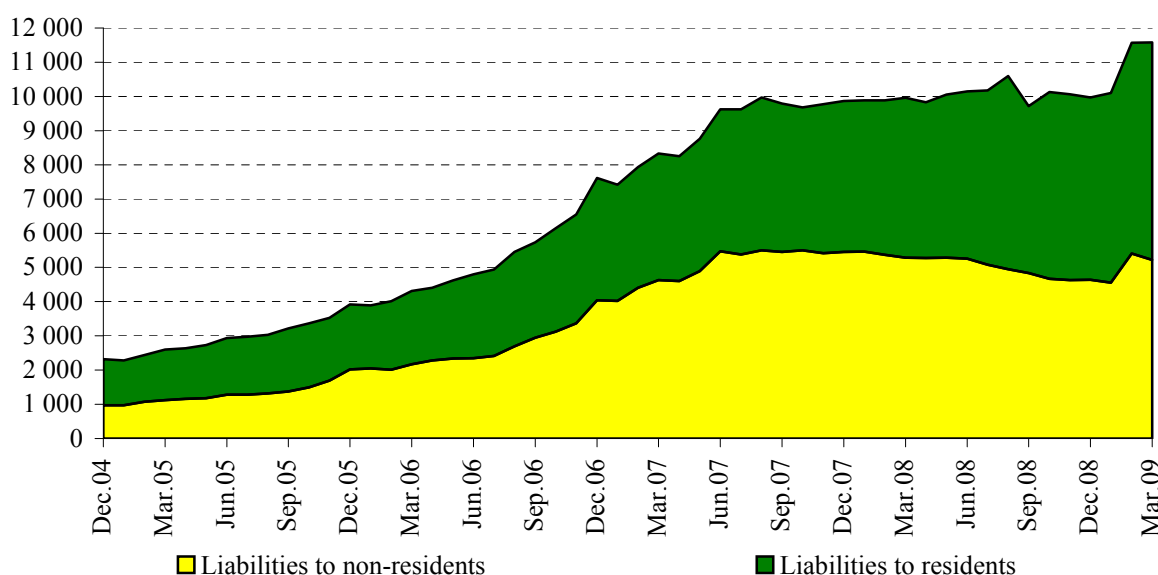
Source: National Bank of the Republic of Kazakhstan

– Liabilities

In the first quarter of 2009 total bank liabilities calculated in line with the monetary survey increased by 16.1% and amounted to KZT 11,6 tln. at the end of March. In annual terms (in March 2009 compared to March 2008) bank liabilities grew up by 16.3% (Figure 29).

Figure 29

Dynamics of bank liabilities, KZT bln.



Source: National Bank of the Republic of Kazakhstan

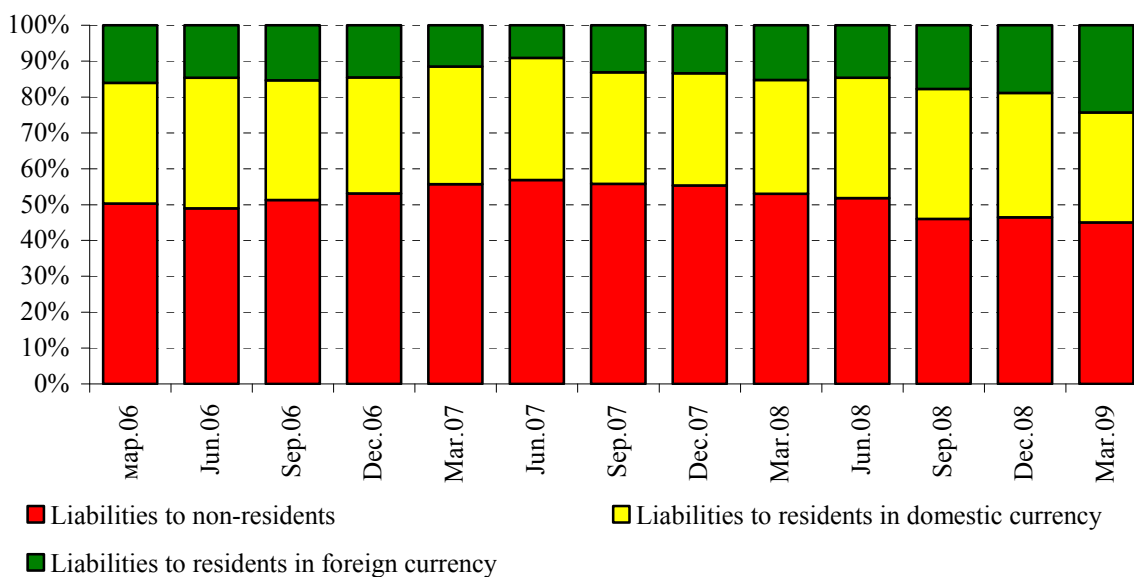
Bank liabilities to non-residents increased by 12.5% to KZT 5.2 tln. in March 2009 compared to December 2008, and contracted by 1.2% compared to March 2008. At end-March 2009 they accounted for 45.9% of bank liabilities.

In the structure of bank liabilities to non-residents credits from non-residents amounted to 87.4%, liabilities on non-residents' deposits – 4.5%, on securities other than shares – 5.2%.

Over January-March 2009 liabilities to residents increased by 19.3% to KZT 6.4 tln. including liabilities in the domestic currency – by 2.6% to KZT 3.5 tln., liabilities in foreign currency increased by 50.0% to KZT 2.8 tln. In annual terms the growth in these indicators made up 36.0%, 12.4% and 84.9%, respectively (Figure 30).

Figure 30

Structure of bank liabilities, %



Source: National Bank of the Republic of Kazakhstan

4.2.3. Rates in the Financial Market

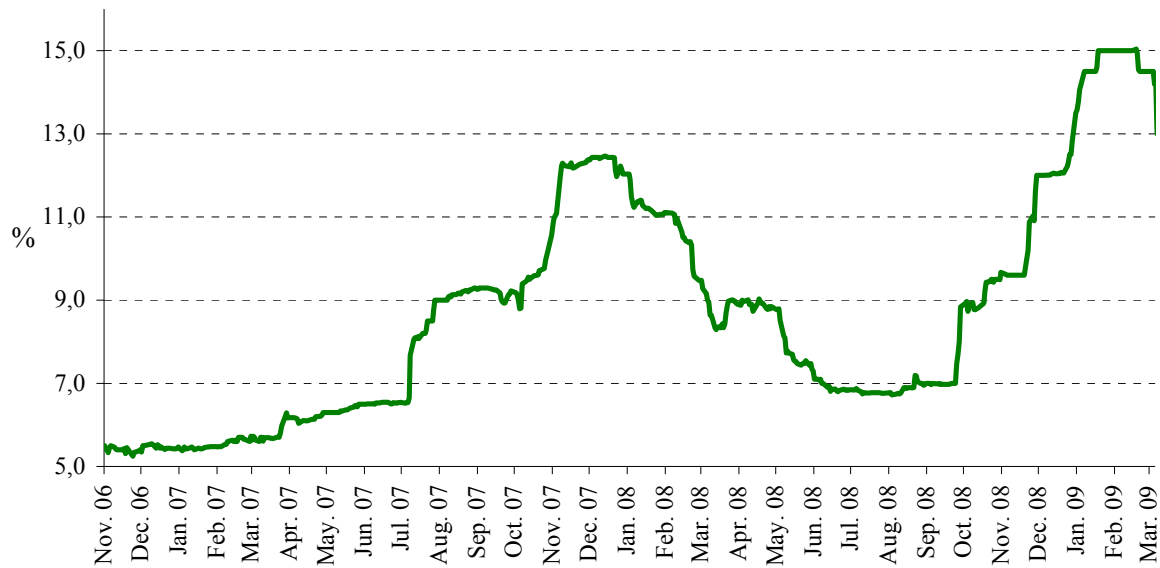
In the first quarter of 2009 there was an increase in the level of rates in the interbank market.

The KazPrime index grew up from 9.05% on average for Q4 2008 to 14.08% on average in Q1 2009. This indicator was 12.00% at December-end 2008 and it grew up to 14.2% at the end of March 2009 (Figure 31).

The dramatic increase of the indicator in January-February was caused by devaluation expectations of the financial market, devaluation of the domestic currency, as well as uncertainty in respect of the prospects in the further development of the country's banking system and acquisition of a share in the equity of large banks by the government.

Figure 31

Dynamics of the KazPrime Index



Source: Kazakhstan Stock Exchange

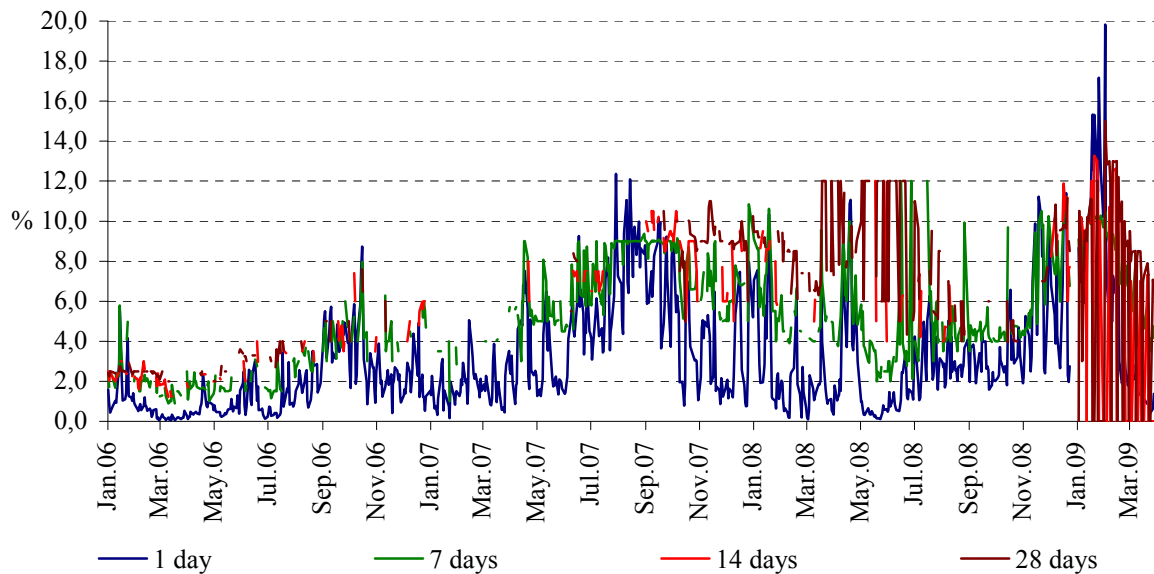
Rates on the REPO operations are also growing.

The average weighted rate on one day operations in the sector of automatic REPO in the first quarter of 2009 increased and was 6.12% (in Q4 2008 – 5.03%). Its maximum value was 19.82% (February 4, 2009), and minimum – 0.42%.

Rate fluctuations on the 7 day REPO operations in Q1 2009 were within the range of 3.48% to 10.53% (average weighted rate on the transaction date), on 14-day REPO operations – from 7.00% to 13.27%, on 28-day REPO operations – from 3.00% to 15.00% (Figure 32).

Figure 32

Dynamics of rates on REPO operations



Source: Kazakhstan Stock Exchange

Volatility of the money market rates remains high being related to the small market capacity, insignificant depth, and the lack of sufficient number of instruments of pledge. In addition, quite often market rates fall beyond the National Bank's rate band thus not allowing regarding it as an efficient instrument of stabilization of the money market rates.

The volumes of transactions in the sector of automatic REPO in the first quarter of 2009 decreased by 19.4% as compared to the previous quarter. As compared to Q4 2008, volumes on one day and 28 day REPO operations reduced.

A significant growth in the volumes of REPO operations with 7 day maturity should be mentioned (twofold increase compared to Q4 2008). The main reason is the increase in the volumes of liquidity provided by the National Bank (the National Bank conducts 7 day REPO operations only).

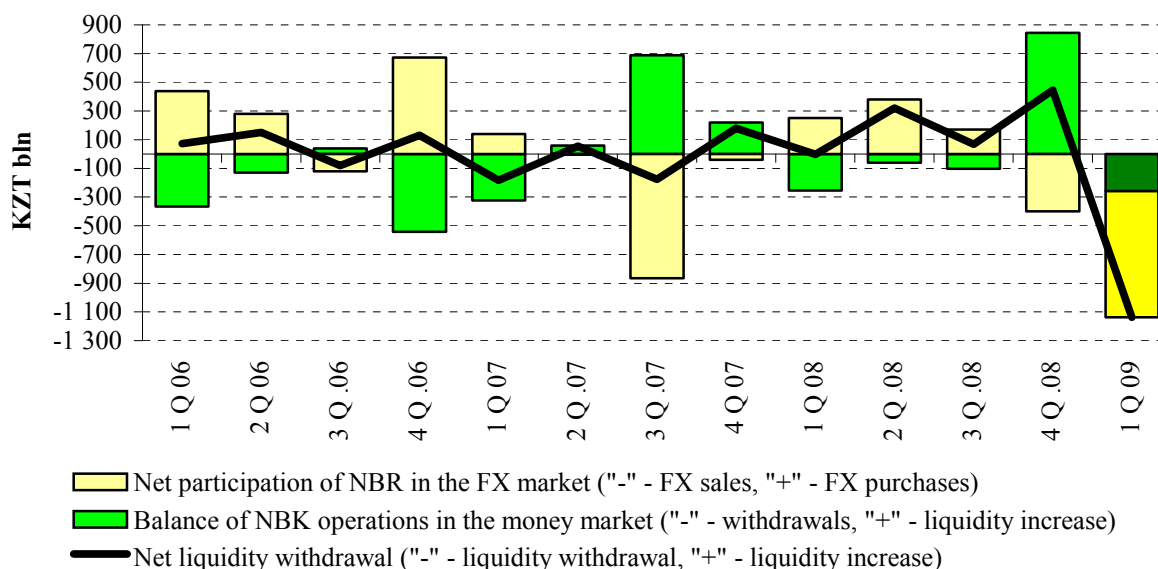
5. Monetary Policy Instruments and Operations

In the circumstances of insufficient current liquidity in banks in the first quarter of 2009 the National Bank increased the volumes of its refinancing. At the same time the National Bank stopped conducting swap operations in March 2009.

In the first quarter of 2009 the result of the National Bank's operations in the financial market was withdrawal of liquidity mainly due to the sale of foreign exchange by the National Bank (Figure 33).

Figure 33

Balance of the National Bank's operations in the domestic market



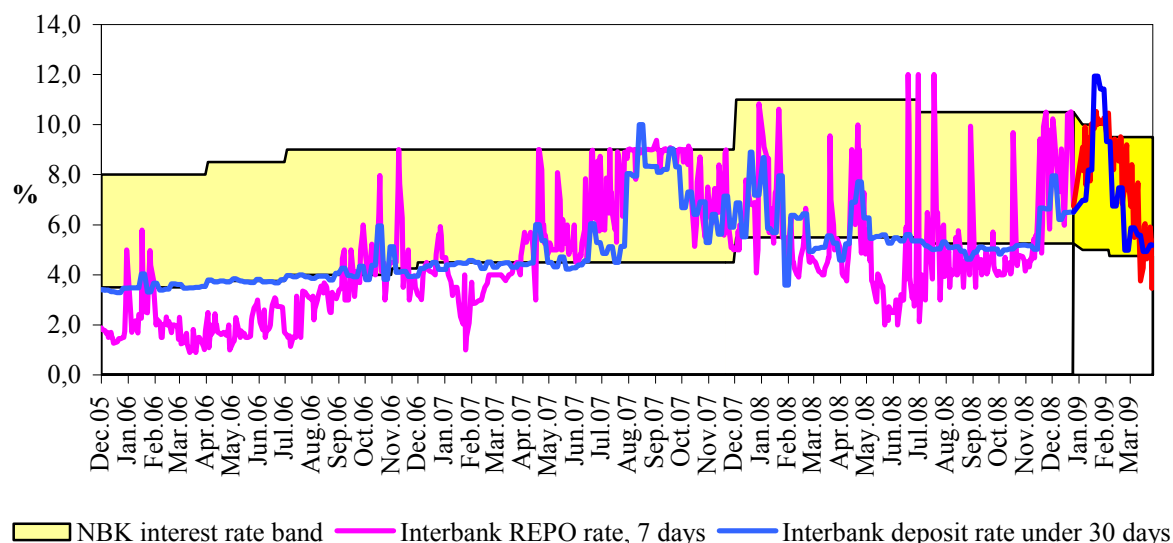
Source: National Bank of the Republic of Kazakhstan

As part of its actions for ensuring stability in the financial sector, the National Bank reduced its interest rates in the first quarter of 2009. From January 1, 2009 the official refinancing rate was reduced from 10.5% to 10.0%, and from February 5, 2009 – to 9.5%. The rate on deposits attracted from banks was reduced from 5.25% to 5.0% and 4.75%, respectively.

Due to the build up of devaluation expectations in the money market in January – beginning of February 2009 there was some increase in money market profitability on operations comparable in terms of their maturities. After the conducted devaluation of the Tenge the interbank market rates began to gradually decrease. On average for the quarter the level of rates was in the middle of the National Bank's rate band. The average weighted rate on interbank deposits with maturity of up to 20 days was at 7.40% in the fourth quarter of 2008. The average weighted rate on interbank REPO operations with 7-day maturity was 9.24% (Figure 34).

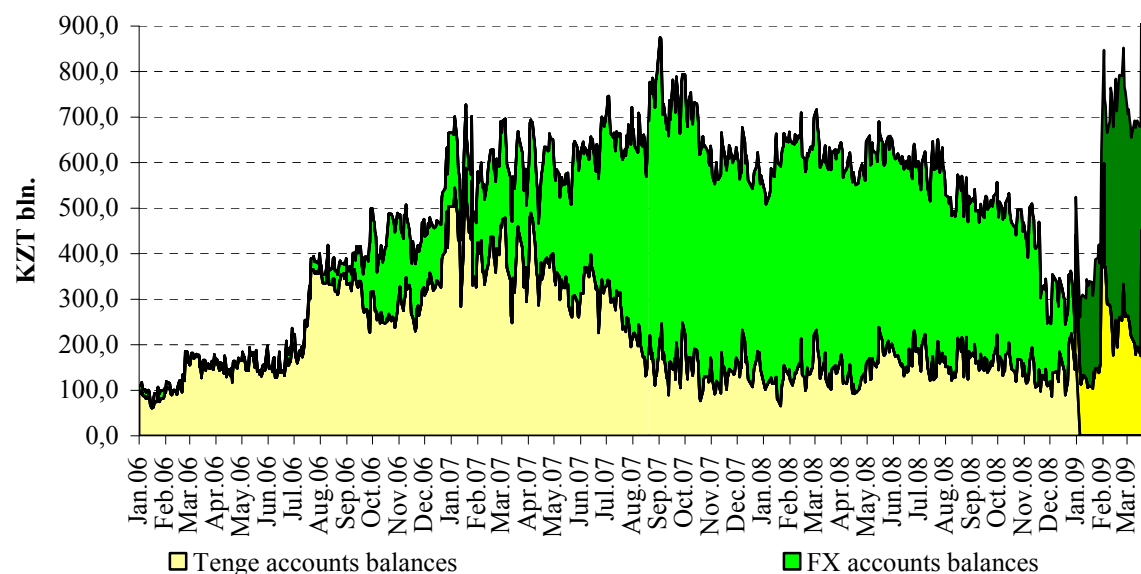
In the first quarter of 2009 there was a growth in the balances of banks' correspondent accounts with the National Bank, both in the domestic and in foreign currency (Figure 35). Over the past period the main increase in foreign currency account balances fell on February 2009 being caused by the conducted devaluation of the Tenge. In March 2009 correspondent account balances decreased to some extent due to reduced minimum reserve requirements and, hence, reduced needs in building up significant reserve assets (see 5.2. Minimum Reserve Requirements).

Figure 34

Boundaries of the National Bank's interest rates band

Source: National Bank of the Republic of Kazakhstan

Figure 35

Balances of correspondent accounts with the National Bank

Source: National Bank of the Republic of Kazakhstan

5.1. Interventions in the Domestic Foreign Exchange Market

The situation in the domestic foreign exchange market has been formed in the environment where the demand for foreign exchange exceeded its supply. The main reason for the excess of demand over supply was represented by devaluation expectations in the market in conditions of low world prices for oil. In addition, this was caused by increased demand for foreign exchange by the banks. In the first quarter of 2009 alike in the previous quarters there was net outflow of resources on foreign borrowings of the banks. So, based on

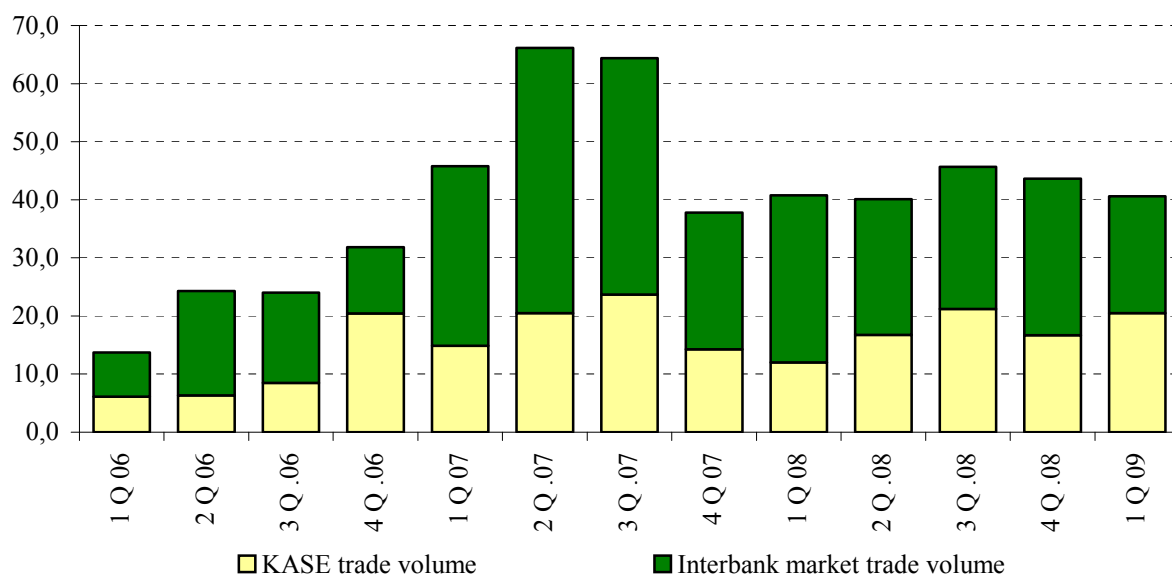
the monetary survey for Q1 2009 liabilities of banks to non-residents decreased by US\$ 3.9 bln. (in Q4 2008 – by US\$1.9 bln.).

In the first quarter of 2009 the total volume of trades in the foreign currency segment of the Kazakhstan Stock Exchange and interbank foreign exchange market amounted to US\$ 40.5 bln., having decreased (by 7.1%) compared to Q4 2008.

The volume of trades in Dollar position at the Kazakhstan Stock Exchange increased by 22.8% compared to Q4 2008 and amounted to US\$ 20.5 bln. (net trades at the Kazakhstan Stock Exchange made up 87% of gross trades). In the off-exchange foreign currency market the volume of transactions in the first quarter of 2009 decreased by 25.6% as compared to the previous quarter and amounted to US\$ 20.1 bln. (Figure 36).

Figure 36

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



Source: National Bank of the Republic of Kazakhstan

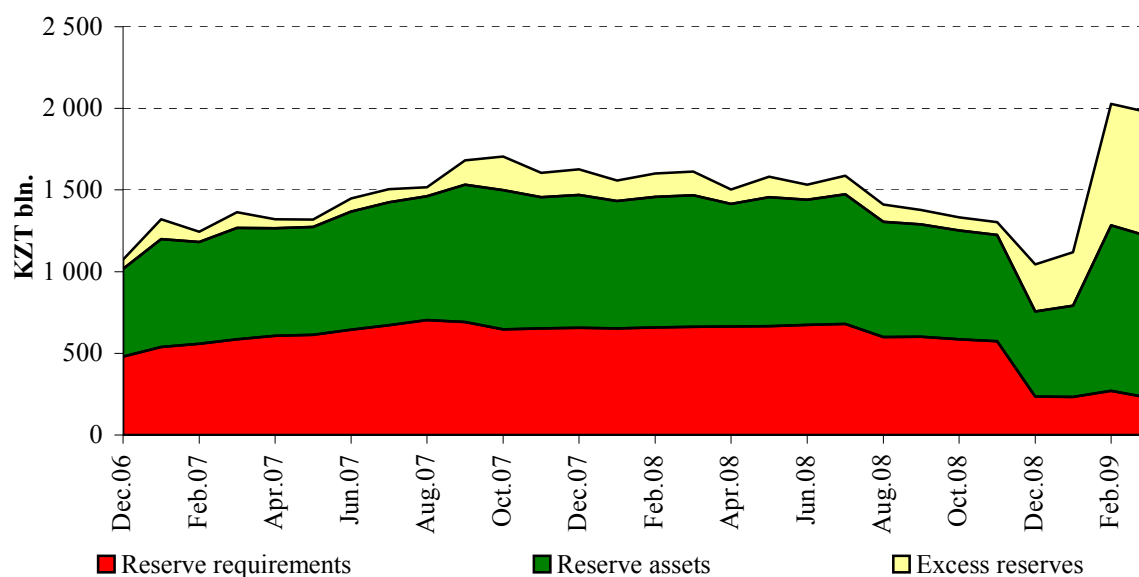
Based on the first quarter of 2009 the ratio of the National Bank's participation in the Kazakhstan Stock Exchange was negative and made up -33.2% (in Q4 2008 it was -20.4%). Thus, in the first quarter of 2009 the National Bank was primarily a seller of foreign exchange in the domestic exchange market.

5.2. Minimum Reserve Requirements

On average in January-March 2009 reserve assets demonstrated nearly a threefold increase over the required reserving volume (in Q4 2008 – by 54%) (Figure 37).

For the purposes of regulation of short-term liquidity of banks from March 3, 2009 the norms on bank domestic liabilities have been reduced from 2% to 1.5%, on other liabilities – from 3% to 2.5%. The establishment of new norms allowed bank releasing about KZT 50 bln. of additional liquidity.

Figure 37

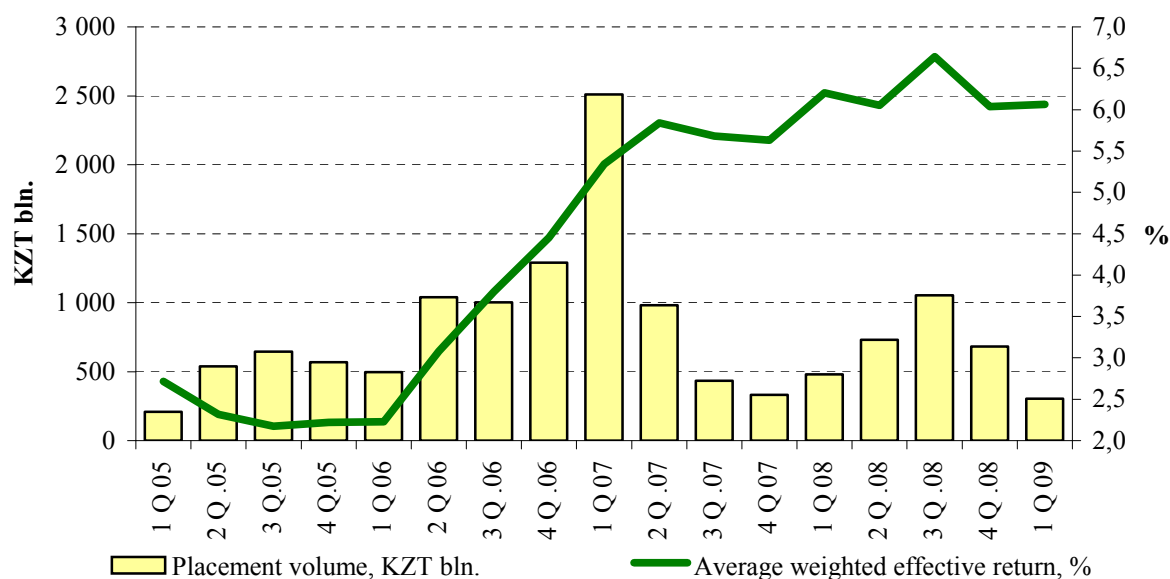
Compliance with minimum reserve requirements

Source: National Bank of the Republic of Kazakhstan

5.3. Open Market Operations

In the first quarter of 2009 low demand for short-term notes of the National Bank on the part of banks remained, associated with the aggravation of the problem of insufficient liquidity in banks and the building up of devaluation expectations in the market. So, the volume of short-term notes issued in the first quarter of 2009 reduced by 55.3% compared to Q4 2008 and amounted to KZT 304.7 bln. Notes were issued with maturities of 28 and 91 days. The average weighted yield on placed notes virtually didn't change: growth from 6.04% in Q4 2008 to 6.06% in Q1 2009 (Figure 38).

Figure 38

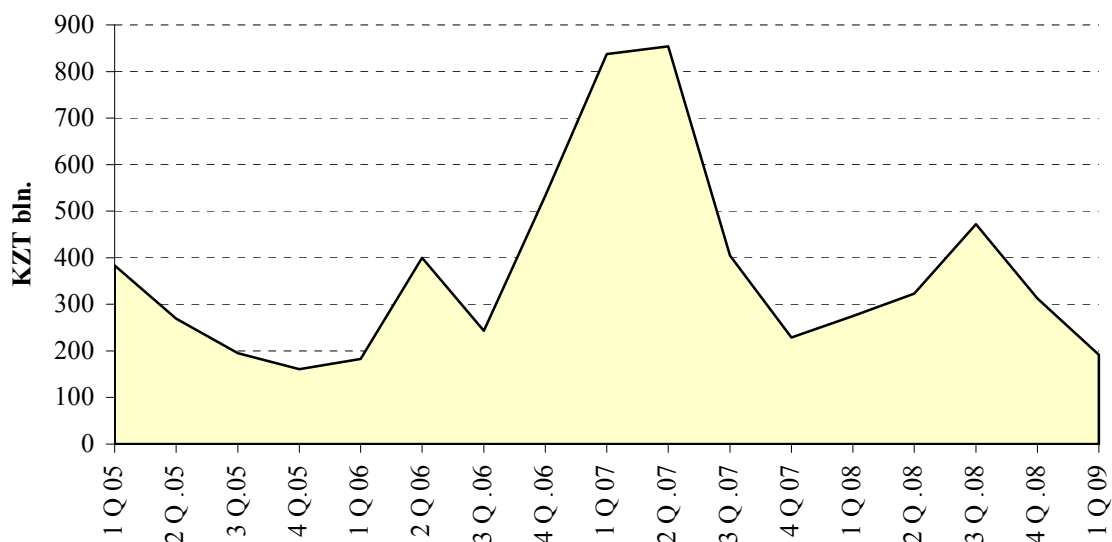
Volume of placed short-term notes and their yield (for the period)

Source: National Bank of the Republic of Kazakhstan

At end-March 2009 the volume of short-term notes in circulation was KZT 191.4 bln., being by 38.7% less than the volume at the end of December 2008 (Figure 39).

Figure 39

Short-term notes in circulation (at the period end)



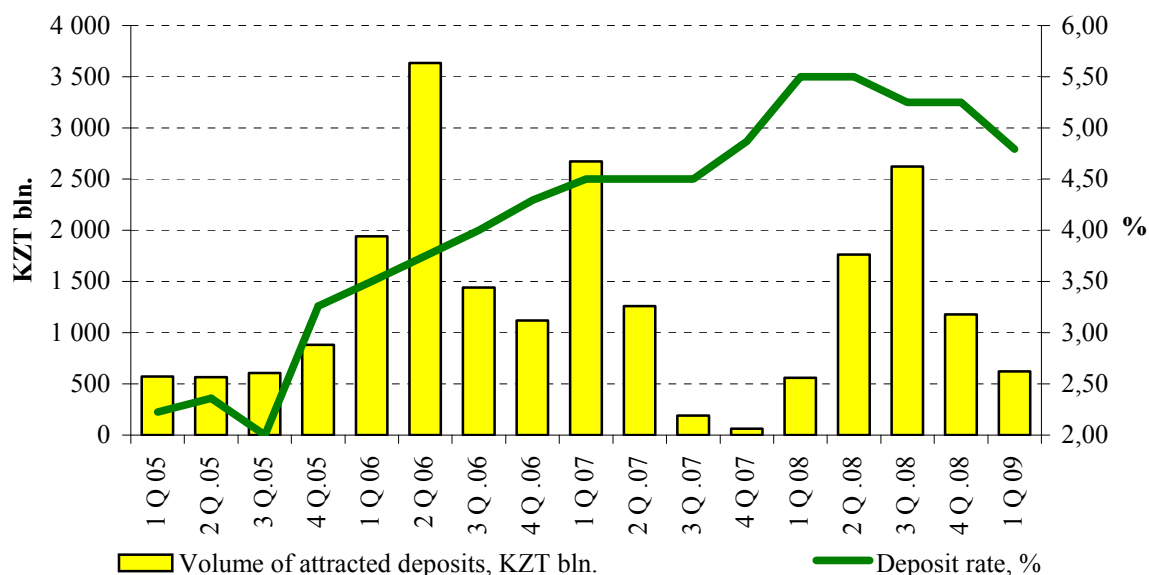
Source: National Bank of the Republic of Kazakhstan

5.4. Standing Facilities

In the first quarter of 2009 the volumes of the bank deposits with the National Bank decreased as compared to the previous quarter but grew up compared to the number for the respective period of 2008. The attractions peaked in March. In general, in January-March 2009 deposits worth KZT 622.6 bln. were attracted being by 47.1% less than the volume in Q4 2008 and by 11.0% more than in Q1 2008. The maturity of these deposits was 7 days (Figure 40).

Figure 40

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



Source: National Bank of the Republic of Kazakhstan

Growth in volumes of deposits attracted from banks in March 2009 was accompanied by the 4.5 times growth in the amount of the National Bank's outstanding liabilities on these deposits to KZT 150.0 bln. as compared to December 2008 (Figure 41).

In the first quarter of 2009 there was still the deficit of short-term liquidity in the banking sector. Against the backdrop of decreased volumes of sterilization operations of the National Bank a high demand for refinancing from the National Bank on the part of the banks remained.

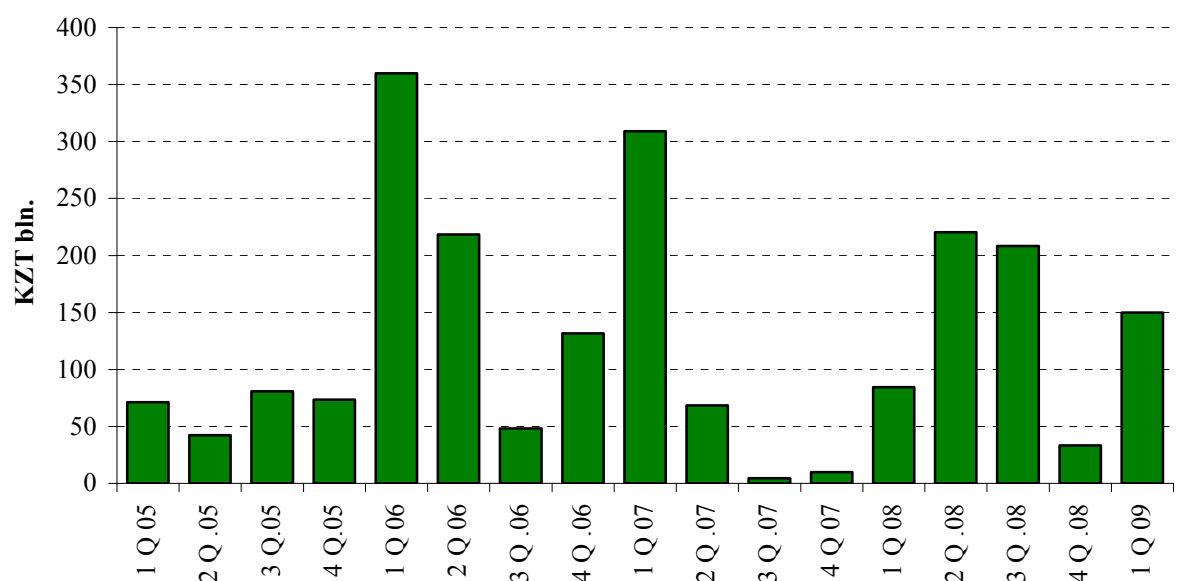
In the first quarter of 2009 the National Bank provided refinancing loans to banks through reverse REPO operations and swap operations. The total volume of reverse REPO operations was KZT 1686.5 bln., swap operations – KZT 1393.0 bln. (Figure 42).

It should be mentioned, however, that from March 2009 the National Bank stopped conducting swap transactions.

In the first quarter of 2009 the National Bank amended the list of collateral used in conducting reverse REPO operations. Currently it includes government securities, bonds of the national companies of the Republic of Kazakhstan, of foreign states, international financial organizations, JSC "Kazakhstan Mortgage Company", JSC "Development Bank of Kazakhstan as well as debt securities of banks whose issuers are directly 100% owned by the state or by the NWF "Samruk-Kazyna" or Holding Company "KazAgro".

Figure 41

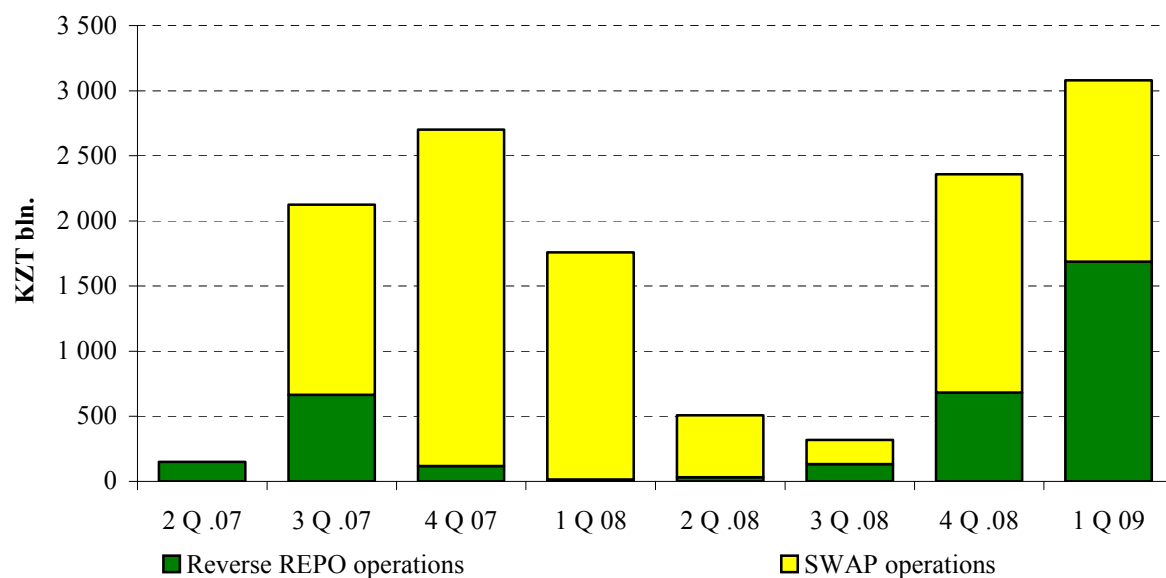
Volume of the National Bank's outstanding liabilities on deposits attracted from banks (at end-period)



Source: National Bank of the Republic of Kazakhstan

Figure 42

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

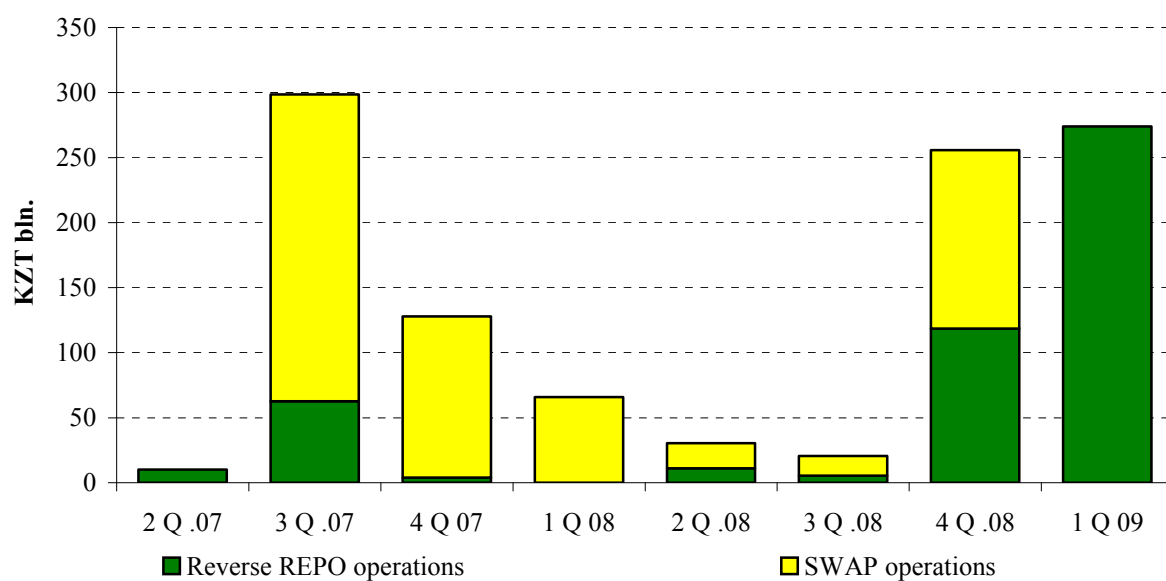


Source: National Bank of the Republic of Kazakhstan

At the end of March 2009 the outstanding debt on reverse REPO operations amounted to KZT 274.1 bln., there were no unsettled swap operations (Figure 43).

Figure 43

**Volume of outstanding liabilities on refinancing operations of the National Bank
(at end-period)**



Source: National Bank of the Republic of Kazakhstan

6. Inflation Forecast

6.1. Evaluation of Inflation Forecast for the First Quarter of 2009

The actual inflation rate in the first quarter of 2009 (2.0%) was lower than the forecast for the period (2.2-2.4%) that was published in the previous issue of the Inflation Report. It is worth mentioning that after the devaluation effected in February 2009 the National Bank revised the inflation forecast: the inflation was expected to be within 5.0% in the first quarter of 2009.

Nonetheless, the inflationary effect from the devaluation appeared to be insignificant, despite the buildup of negative expectations in the market. Inflation has been lower than expected over the entire period.

In 2009 the structure of inflationary processes in the consumer market somewhat changed. So, if in 2008 the major contribution to the inflation was on the part of paid services, in January-March 2009 the pressure from non-food items has increased remarkably.

A high import component within the structure of non-food items against the backdrop of effected devaluation of the Tenge resulted in significant increase in prices for such commodities as detergents, personal care products, and medical supplies.

The increase in prices for sugar and alcohol should be noted. This trend was typical of the neighboring countries. In particular, the growth in price for sugar is observed in Russia due to the weakening of the Russian ruble and growth in prices for raw materials used for sugar production.

The price growth for fruit and vegetable production is typical of the period and is explained by the seasonality factor, in the first instance. However, it's worth mentioning that in the first quarter of 2009 the price growth rates were significantly lower as compared to the previous years. In Q1 of 2003-2008 appreciation of fruit and vegetable production exceeded 9%, in 2009 –5.6% only.

In the first quarter of 2009 bread products, oils and fats, eggs, fuel and lubricants, and utilities became cheaper.

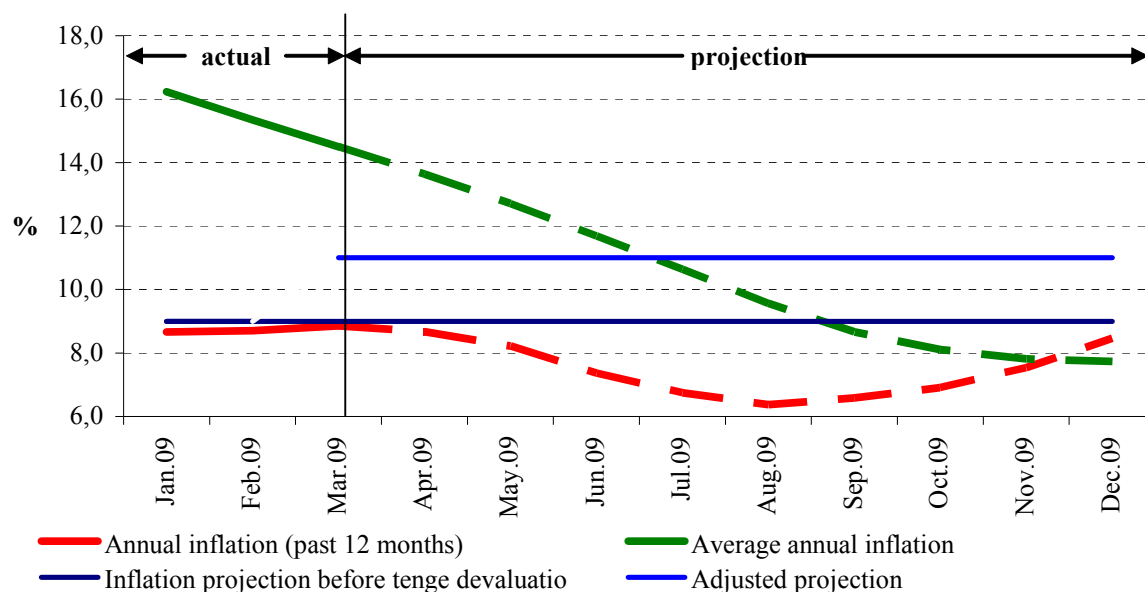
The actual inflation rate in annual terms at the end of March 2009 also didn't exceed the forecast published in the previous issue of the Inflation Report. So, in March 2009 the annual inflation was at 8.9%, while the forecast was 9.1-9.3%.

6.2. Inflation Forecast for 2009

In 2009 the situation in the consumer market will remain stable. In the previous issue of the Inflation Report the forecasted inflation was at 9%. However, one of the implications of the devaluation effected in February 2009 was the buildup of inflationary expectations in the consumer market. The frenzy in the market was caused by a sharp and unjustified growth in prices for some goods. In these circumstances the National Bank increased the annual inflation forecast to 11% as based on 2009 (Figure 44).

According to our estimates, the situation in the consumer market will subsequently stabilize, and factors such as mitigation of negative expectations in the market, slowdown of the economic growth, limited consumer demand, and reduced growth rates in the income of population will contribute to the stabilization.

Figure 44

Actual inflation in 2008

Source: National Bank of the Republic of Kazakhstan

Actions taken by the National Bank in 2009 will be adequate to the current situation. Since no growth in the inflationary pressure is anticipated in the nearest term, no additional actions in this respect will be required. The objective of ensuring stability of the exchange rate of the Tenge and stability of the country's financial sector comes to the forefront.

Moreover, actions taken by the Government to support the economy, particularly implement innovation, industrial projects, support of the small-and medium-size business, and development of agro-industrial complex provided for by the Plan of Joint Actions of the Government, National Bank and the FSA for stabilization of the economy and financial system in 2009-2010 will facilitate the development of competition in the market, and the growth of productivity in the non-oil sectors of the economy. As a result, this will have favorable effect on development of the economy in general and will help achieve the price stability in the consumer market.

6.2.1. Inflation Forecasts for the Second Quarter of 2009

The inflation forecast for the second quarter of 2009 is 1.7-1.9% (in Q2 2008 – 3.1%). As a whole this rate is consistent with the inflationary trends of the second quarter which were typical of the previous years except 2008.

Such expectations are associated with the fact, that inflation in the nearest term will be formed, in the first instance, under the influence of the seasonality factor. Prices for individual types of goods and services (fruit and vegetable production, meat, dairy products, fuel and lubricants, and transportation services) are expected to go down.

Based on June 2009, annual inflation is expected to be at 7.5-7.7%. If inflation forecast for the second quarter of 2009 come true, the National Bank may revise the annual inflation forecast for 2009 and bring it down to 9.0%.

6.2.2. Inflation Forecast for the Third Quarter of 2009

In the third quarter of 2009 inflation is anticipated to be within the range of 1.6-1.8% (in Q3 2008 – 2.3%) that corresponds to the annual inflation of 6.7-6.9% at the end of September 2009.

The lowest inflation rate throughout a year is as a rule observed in summer time. The situation in the consumer market in July-September is to a great extent formed under the impact of a seasonality factor. This, in its turn, leads to decrease in prices for some types of foodstuff (fruit and vegetables, meat and dairy products, and others). At the same time, the growth of tariffs for certain services provided to the population (services provided by educational establishments, transportation services) is possible.