

**MONETARY POLICY GUIDELINES OF NATIONAL BANK OF THE
REPUBLIC OF KAZAKHSTAN
for 2007-2009**

1. Preliminary Results 2006

In 2006 inflationary pressure tended to intensification. According to official data of the Statistics Agency of the Republic of Kazakhstan, in 2006 inflation reached 8.4% (December 2006 as against December 2005), while in 2005 it was 7.5%. Food products rose in price by 7.3%, nonfoods by 7.1%, paid services by 11.6%. The biggest price increase was registered for fruits and vegetables by 25.2%, gasoline – 21.5%, transport services – 19.3%, sugar – 16.4%.

Key factors determining the inflation tendencies in economy of the country are of long-term and fundamental nature, as they keep influencing for several years now.

1.1. Key Inflation Factors in 2006

Among the key factors putting pressure upon the inflation processes in economy of the country the following factors should be distinguished:

- 1) high growth rates of aggregate demand;
- 2) inflow of foreign exchange;
- 3) high growth rate of wages;
- 4) accelerating growth of production costs;
- 5) low competition on goods and services markets.

1) High growth rates of aggregate demand

Key characteristics of the aggregate demand are retail trade turnover, investment demand of enterprises and government expenditures.

Increase in retail trade turnover is caused by increase in income of the population. In 2006 as against 2005 the nominal income increased by 20.2% and in real terms by 10.7%. As a result, increase in retail trade turnover came to 14.4% in 2006 as against the previous year.

Increase in demand of enterprises is expressed through increase in investment. As a result, investment in fixed capital increased by 10.6% in 2006.

Consumer demand of population and investment demand of enterprises are supported with increase in availability of credit resources. In 2006 as against 2005 volume of banks credits to economy increased by 69.1%.

Government demand is determined by increase in budget expenditures.

However, the budgetary policy of Kazakhstan was very moderate, in particular, during the second half of 2006. It was characterized by high budget revenue under slight increase in government expenditures, and transfer of considerable amounts to the National Fund. In 2006 the budget revenue reached 22.2% to GDP in conditions comparable to those of 2005, i.e. without the National Fund receipts (in 2005 23.6% of GDP), and expenditures by 21.4% of GDP (22.9% of GDP).

Increase in aggregate supply determined under a real GDP growth rate reached 10.6% in 2006 as against 2005 according to the Statistics Agency of the Republic of Kazakhstan.

Though, in 2006, on the whole, the increase in aggregate demand did not surpass the increase in aggregate supply practically, in some periods of 2006 an economic situation was not so uniform. So, in the first half of 2006 the increase in aggregate demand was rather higher than the increase in aggregate supply, whereas in the second half of the year the situation changed for

the contrary. That can explain the increase in inflation in the first half and the decrease in the second half of 2006.

2) Inflow of Foreign Exchange

Foreign exchange comes to the Republic of Kazakhstan through three main channels: trade operations, direct investment transactions and borrowings by second-tier banks.

According to results of 2006, trade balance was positive and exceeded 14.6 billion US dollars. Net inflow of direct foreign investments amounted to 6.6 billion US dollars. In 2006 foreign debt of the second-tier banks increased from 18 billion US dollars to 33.3 billion US dollars.

Inflow of external resources resulted in increase of foreign assets of Kazakh residents. In 2006 official reserves of the country, i.e. international reserves of the National Bank of the Republic of Kazakhstan (hereinafter referred to as the “National Bank”) and assets of the National Fund of the Republic of Kazakhstan (hereinafter referred to as the “National Fund”) increased 2.2 times to 33.2 billion US dollars. In 2006 net international reserves of the National Fund increased 2.7 times and, as of the end of 2006, amounted to 19.1 billion US dollars.

Considerable foreign exchange inflow resulted in increase of money aggregates. In 2006 increase in the money supply by 79.9% to 3716 billion KZT was caused by increase of internal assets of the banking system. According to preliminary data, a higher rate in increase of the money supply, comparing with increase of nominal GDP, led to monetization growth of the economy from 27.2% at the end of 2005 to 38.1% at the end of 2006.

In 2006 cash in circulation increased by 45.8% to 601 billion KZT, whereas in 2005 it increased by 8.6%.

In 2006 the money base increased 2.3 times to 1501 billion KZT (in 2005 by 14.7%). In 2006 the money multiplier decreased from 3.12 to 2.47 due to the leading increase rate of the money base as against the increase rate of the money supply.

3) High Growth Rate of Wages

In 2006 as compared with 2005 the nominal wage increased by 19.7% and in real terms by 10.2%.

Increase in wage rate which is not supported by respective or higher increase in labor productivity results in increase of inflation pressure in economy/ It is observed in the Republic of Kazakhstan. According to preliminary data of the National Bank, the labor productivity increased by 8.4% as against 2005.

4) Accelerating Growth of Production Costs

According to official data of the Statistics Agency of the Republic of Kazakhstan, prices for material and technical resources for industrial enterprises increased by 9.7% in 2006 (December 2006 as against December 2005). As a result, goods and services of the above enterprises rose in price by 14.6%, including intermediate products that rose in price by 15.9%; consumer commodities produced by the industrial enterprises increased by 8.2% and means of production increased by 8.7%.

High increase in production costs resulted in rise in prices of final products, including prices of consumer commodities and services, not only during 2006 but will keep influencing in 2007 as well. It is linked with the fact that the rise in prices of consumer commodities and means of production of industrial enterprises is behind prices of intermediate products.

In 2006 costs of energy resources generated by industrial enterprises of the Republic of Kazakhstan increased by 10.0%, including oil prices which increased by 11.0% and natural gas prices by 3.5%.

As a consequence, prices of fuel and lubricants increased at the consumer market as well. In particular, in 2006 gasoline went up by 21.5% and transport services by 19.3%.

5) Low Competition at Goods and Services Markets

On some markets of goods and services there are few market players. Often they are big intermediary structures (on the foodstuffs market, in particular. Even if monopolization of

markets can not be observed in the Republic, on the whole, some regional monopolies operate in regions. Free access to the market for smaller enterprises is either closed or rather difficult.

Low competition on some markets of goods and services resulted in price increase.

1.2. Measures taken by the National Bank and results of Monetary Policy in 2006

To decrease negative impact of the above factors on inflation processes, in 2006 the National Bank kept pursuing a “tight monetary policy”. It included the following groups of measures contributing to decrease in inflation pressure:

- measures to increase rates of operations of the National Bank (pursuing of the “expensive monetary policy”);
- measures to withdraw excess liquidity of the second-tier banks;
- measures of the exchange rate policy.

Measures to increase rates of operations of the National Bank (pursuing of the “expensive monetary policy”).

From the very beginning of the year the official refinancing rate increased twice: in April 1, 2006 from 8.0% to 8.5% and in July 1, 2006 to 9.0% (the fourth increase for the last one and half year). The rate of deposits attracted from the second-tier banks increased four times: in April 1, 2006 from 3.5% to 3.75%, in July 3, 2006 to 4.0%, in November 1, 2006 to 4.25%, in December 1, 2006 to 4.5%. Yield of notes increased from 2.24% as for the end of 2005 to 4.95% as of the end of 2006 (effective yield).

Interest rates of the National Bank influence market rates of bank credits to economy indirectly, via yield on the inter-bank market. The monetary policy measures resulted in increase of the rate for 7-days inter-bank repo operations on the Kazakh stock-exchange from 1.54% on average in December 2005 to 5.15% on average in December 2006. Besides, from June to December 2006 inter-bank deposit rates in national currency increased from 3.77% to 4.45%, for deposits in US dollars from 5.08% to 5.35%. Yield increase at the inter-bank market influences the economy credit rates with some lag and therefore it is expected that the results will be observed in 2007.

Measures taken to withdraw excess liquidity of the second-tier banks

Volume of National Bank transactions on the financial market to withdraw excess liquidity from the banking sector increased. Thus, in 2006 deposits attracted from the banks increased 3.1 times as compared with 2005, i.e. the volume of deposits during the above period increased from 2.6 trillion KZT to 8.1 trillion KZT. As a result, balances on deposits of the banks increased by 51.5% and amounted to 131.6 billion KZT.

From the beginning of 2006 volume of short-term notes of the National Bank placed in one auction increased gradually from 31 billion KZT to 150 billion KZT. In 2006 the notes issued amounted to 3.8 trillion KZT, that is 2.0 times more than in 2005. In 2006 the amount of notes in circulation increased 3.3 times to 533.1 billion KZT.

From July 12, 2006 the National Bank introduced new Rules of Minimal Reserve Requirements (MRR). The Rules resulted in considerable expansion of the bank’s structure of liabilities which are regulated by MRR provisions. In addition, differentiated norms of the minimal reserve requirements were introduced: 6% for internal liabilities of the bank and 8% for other liabilities of the bank. From July 18 the second-tier banks started estimating of the minimal reserve requirements in accordance with the new rules and from July 20 they started forming reserve assets. Changes in the rules resulted in increase of the minimal reserve requirements that entailed increase in the reserve assets.

According to the new changes, at the end of 2006 the reserve assets of the second-tier banks increased the level required 1.1 times to meet the MRR norms, whereas as for the middle of July this year such increase made 2.4 times.

Decrease in liquidity of the banking system means decrease in spare cash of the banks; taking into account a multiplicative effect that leads to considerable decrease in credit abilities of

the banks. Overall, that decreases inflation pressure and, could contribute with some lag to increase of yield in credits of the banking system.

Measures under Exchange Rate Policy

From July 1, 2006 the mechanism of formation and use of the National Fund changed, and as a result the National Bank introduced new Rules of converting and reconverting assets of the National Fund of the Republic of Kazakhstan (No.67 dated July 25, 2006). According to the Rules the National Bank can both sell foreign exchange from international assets and purchase foreign exchange on domestic market for the National Fund.

Moreover, in the second half of 2006 the situation on the currency market was influenced by some measures taken by the Government, the National Bank and Agency for Regulation and Supervision of the Financial Market and Financial Organizations of the Republic of Kazakhstan (hereinafter referred to as “FSA”).

As a result, in 2006 the tenge exchange rate on domestic market was characterized by tendencies of various directions caused by both increase in foreign exchange supply and currencies movements on the world market. In the first half of 2006 considerable appreciation of tenge against US dollar was observed in nominal terms; from July to September exchange rate of tenge to US dollar tended to depreciate; from October to December exchange rate of tenge to US dollar was relatively stable. On the whole, in 2006 exchange rate of tenge to US dollar appreciated in nominal terms by 5.06%.

So, ***the Monetary Policy of the National Bank aimed to decrease inflation pressure in 2006*** resulted in breaking the tendency of inflation dynamics. In the second half of the year the annual inflation slowed down: from December 2005 to May 2006 inflation increased from 7.5% to 9.0%, whereas in December 2006 it decreased to 8.4%.

In the second half of 2006 core inflation reflecting a general tendency in dynamics of inflation processes and impact of macroeconomic policy measures on inflation, including monetary, taxation and budgetary, antimonopoly policies decreases in annual terms as well, from 8.6% in June to 7.3% in December.

Nevertheless, despite of the measures taken to achieve price stability, annual average inflation in 2006 reached 8.6%, having exceeded the price target lightly under a scenario of high prices (6.9-8.5%).

According to the Monetary Policy Guidelines for 2006-2008 approved by National Bank’s Board Resolution No.20 dated 11.03.06, two scenarios were determined for development of the situation depending on a level of world oil prices. During 2006 a scenario of high oil prices was realized (in 2006 average world prices for Brent oil amounted to 65.4 US dollar/barrel).

Under the above conditions the National Bank has developed the Monetary Policy Guidelines for 2007-2009.

2. Monetary Policy Guidelines for 2007-2009

According to Article 29 of the Law of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan”, the main objective of the Monetary Policy of the National Bank is price stability.

The Monetary Policy Guidelines are determined every year the next 3 years and include prognoses of key indicators of the monetary policy for the next 3 years and detailed measures for coming year.

A model of transmission mechanism was applied when developing the forecasts for the key indicators of the monetary policy for 2007-2009. It was assumed that during a medium-term period, world economy growth and world trade market conditions would be favourable to economic development of Kazakhstan. Moreover, parameters of the Medium-Term Plan of Social and Economic Development of the Country for 2007-2009 (hereinafter referred to as the “Medium-Term Plan”) were taken as a basis for calculations and assumptions. Besides, it was

assumed that according to the National Budget for 2007 budget expenditures for 2007 would increase by 28.1% comparing with 2006.

The inflation forecast was formed on the basis of the Phillips curve which reflects relation between GDP gap, inflation expectations and wages. The latter factors, in their turn, are determined through credits to economy, exchange rate, money supply and other factors. Foreign debt is not included directly in the models.

Forecasting of potential inflation in 2007-2009 using P-star model demonstrates that in conditions of considerable inflow of foreign capital, excess liquidity on the domestic financial market and increase in state budget expenditures, inflation pressure will persist, though inflation dynamics will have a declining tendency in the medium-term period.

2.1. Forecasting of medium-term inflation and main targets for 2007-2009

Taking into account high dependence of economic situation in the country on energy supply prices, oil in particular, and capital inflow to the country, 3 scenarios of economic development were considered in the developing of inflation forecast for 2007-2009:

- *scenario of moderate oil prices and moderate capital inflow* (oil price is less than 60 US dollars/barrel, capital inflow is lower than average annual capital inflow to the country during last 2 years);

- *scenario of moderate oil prices and high capital inflow* (oil price is less than 60 US dollars/barrel, capital inflow is higher than average annual capital inflow to the country during 2 last years);

- *scenario of high oil prices* (oil price is higher than 60 US dollars/barrel).

For all the above scenarios it was assumed that further dynamics of real sector key indicators would be in compliance with figures of the Medium-Term Plan. Thus, it's supposed that for a forecast period average annual GDP growth is 9.6%; capital investments growth is 18%-20%; wage growth is 8% a year; growth of budget transfers to individuals is 8% a year. Moreover, it was supposed that according to the approved National Budget for 2007, national budget expenditures in 2007 would increase by 28.1% comparing with 2006.

In addition, measures taken by the National Bank and the FSA to restrain foreign capital inflows were taken into consideration.

Dynamics of the monetary policy instruments was determined based on situation formed for each scenario individually.

In the scenario of moderate oil prices and moderate capital inflow it was assumed that decrease in oil prices in long term and increase of interest rates on the international capital markets would contribute to decrease in the amount of external financing for oil production projects and decrease of net external borrowings of the second-tier banks.

Given world oil prices not exceeding 60 US dollars/barrel, increase in exports of goods and services will make about 7% in 2007 and 4-6% in 2008-2009. Net surplus of goods and international services balance will compensate increase in payments under external debt liabilities and payment of dividends to direct foreign investors. It's expected that in 2007 the current transactions balance will be positive (about 0.4% to GDP) and in 2009 it will increase to 1% of GDP.

Upon transfer to the final stage of the most capital-intensive projects of oil and gas fields development after 2007 financing in the form of direct foreign investments will decrease gradually. Additional financing will be provided through formation of foreign borrowings of banks and enterprises of the country.

Flows of international capital and export currency proceeds will contribute to preservation of fundamental factors of potential appreciation of tenge and further accumulation of international reserves and assets of the National Fund.

In this scenario banks' assets will increase on average by 27% a year for coming 3-year period. Increase in banks liabilities to non-residents will amount to 9.5-10 billion US dollars a year.

Average annual growth rate of international reserves and assets of the National Fund will reach in the reporting period 10% and 23% respectively.

Average annual data of key instruments of the Monetary Policy for 2007-2009 to obtain acceptable values of inflation forecasts for this scenario have been selected at the following levels: transferable bank deposits with the National Bank – 790 billion KZT, other bank deposits with the National Bank –320 billion KZT, amount of notes in circulation - 270 billion KZT.

In realization of assumptions made regarding further dynamics of factors of the real sector and instruments of the monetary and credit policy the following forecast for 2007-2009 has been developed for the scenario of moderate oil prices under moderate capital inflow. Average annual growth of the money base for the forecasting period will reach 18%; money supply, banking system deposits and credits to economy - 27%-28%. Average annual inflation in 2007 will be limited 6.2%-7.2%, in 2008 – 6.0%-7.0%, in 2009 – 6.0%–7.0% (Attachment 1).

In the scenario of moderate oil prices and high capital inflow it is assumed that preservation of the low borrowings value and uncertainty in dynamics of oil prices will contribute to further expansion of banks' external borrowings and increase in financing of oil production projects.

Since the growth rates of goods and services export do not depend on capital inflow, they will be similar to those of the above scenario.

On average, for the coming three-year period banks' assets will increase by 32% a year. Increase in banks liabilities to non-residents will amount to 10-12 billion US dollars a year.

Average annual growth rate of international reserves and assets of the National Fund will reach 19% and 23% respectively in the reporting period.

Average annual values of key instruments of the Monetary Policy for 2007-2009 that are used to obtain acceptable values of inflation forecasts for this scenario have been selected at the following levels: transferable banks deposits with the National Bank – 860 billion KZT, other bank deposits with the National Bank –640 billion KZT, amount of notes in circulation - 317 billion KZT.

In realization of assumptions made regarding further dynamics of factors of the real sector and monetary policy instruments, the following forecast for 2007-2009 has been developed for the scenario of moderate oil prices under high capital inflow. Average annual growth of the money base for the forecasting period will reach 30%; money supply, banking system deposits and credits to economy - 33%-34%. Average annual inflation in 2007 will be limited 7.3%-8.3%, in 2008 – 6.9%-7.9%, in 2009 – 6.9%–7.9% (Attachment 1).

In the scenario of high oil prices the growth rate of goods and services export will make more than 15% a year. Annual net surplus of goods and international services balance will exceed growth rate of net payments to foreign investors and creditors. In 2007 the current account balance will exceed 1% of GDP and in 2009 it can reach 3% of GDP.

The high oil prices and stable high confidence in foreign investors will promote additional financing of oil and gas projects and increase in external borrowings of banks and enterprises of the country. It's supposed that banks' liabilities to non-residents will increase by 10-15% in 2007- 2008 and in 2009 increase will slow down to 2-3%.

Average annual growth rate of international reserves and assets of the National Fund will reach 25-26%. It will have big impact on exchange rate of tenge towards its appreciation as compared with scenarios of moderate prices. In this scenario the growth rate of international reserves and assets of the National Fund will be higher by 3 to 6 percentage points than under the scenarios of moderate prices.

Besides, it is expected that in conditions of high oil prices further increase in banks' assets will be about 50% in 2007 with gradual slowing down of annual growth rates to 30-40% in subsequent years.

Average annual values of key instruments of the Monetary Policy for 2007-2009 used to obtain acceptable values of inflation forecasts for this scenario have been selected at the

following levels: transferable banks deposits with the National Bank – 990 billion KZT, other bank deposits with the National Bank – 860 billion KZT, amount of circulating notes – 530 billion KZT.

In realization of assumptions made regarding further dynamics of factors of the real sector and monetary policy instruments, the following forecast for 2007-2009 has been developed for the scenario of high oil prices. Average annual growth of the money base, money supply, credits to economy and banking system deposits will reach 40%-41%. Average annual inflation in 2007 will be limited 8.2%-9.2%, in 2008 – 8.0%-9.0%, in 2009 – 8.0%-9.0% (Attachment 1).

The main goal of the Monetary Policy of the National Bank for 2007-2009 is to keep average annual inflation:

within 6.2%-7.2% in 2007; 6.0%-7.0% in 2008; 6.0%-7.0% in 2009 for the scenario of moderate oil prices under moderate capital inflow;

within 7.3%-8.3% in 2007; 6.9%-7.9% in 2008; 6.9%-7.9% in 2009 for the scenario of moderate oil prices under high capital inflow;

within 8.2%-9.2% in 2007; 8.0%-9.0% in 2008; 8.0%-9.0% in 2009 for the scenario of high oil prices.

It is important to note that if GDP, government expenditures and other factors provided by the Medium-Term Plan are revised towards increase, inflation forecast will increase. Besides, in case of more intensive foreign exchange inflows that exceed the level in the high prices scenario, and increase in income of population above the factors specified in the Medium-Term Plan, money supply can go beyond the scope required to achieve the target inflation figures.

This document includes measures planned under the Monetary Policy, basically, for 2007 for the scenario of moderate oil prices, including tightening of the Monetary Policy. Measures for subsequent years will be defined more exactly under results of 2007. If the scenario of high oil prices is applied, the measures of the Monetary Policy can be tightened largely.

2.2. Measures of the Monetary Policy for 2007 under the scenario of moderate oil prices.

As for the Monetary Policy, in 2007 the priority activity of the National Bank is to carry out the Monetary Policy targeted to ensure low-level average annual inflation.

Work to increase efficiency of the monetary operations and ensure further increase of influence of the measures on the money market and to harmonize rates for different instruments of the Monetary Policy will be continued. The measures to increase a regulating role of short-term rates on market interest rates will be taken through narrowing of a rate corridor (the lower rate is a deposit attraction rate; the upper rate is a loan rate).

Rates for operations by the National Bank, including the official refinancing rate, will be regulated depending on a situation on the money market and inflation level.

The key instruments for regulation of interest rates on the financial market and sterilization of banks excess liquidity will be short-term notes and second-tier banks deposits with the National Bank.

In case of need, a possibility to increase period of circulation and increase the volume of notes issued will be considered to construct a short-term yield curve; that will result in considerable expenses by the National Bank. The National Bank will consider this possibility and take applicable decisions depending on the situation at the financial market. In this work the National Bank considers necessary to strengthen cooperation with the Ministry of Finance to consider issues of yield curve formation. Negative impact of this problem on the National Bank shows itself in limited capacity to perform open market operations and weakening impact of the monetary instruments on the major macro factors.

If the problem of excess liquidity of the banking system persists sharply, the National Bank will keep tightening of the monetary policy. To ensure stability of the banking system, the mechanism of bank loans, repo and rediscounting operations will be improved, in particular,

measures to enlarge the list of mortgage instruments will be taken. In addition, to increase efficiency of liquidity instruments (such as refinancing loans and rediscounts), a possibility to unify their circulation periods will be examined.

Along with pursuing the tightening monetary policy to decrease inflation, the budgetary policy should be toughened as well, in particular, as regards the development budget, limitation of aggregate demand growth and promotion of goods and services supply by domestic manufacturers. To decrease pressure on inflation processes, the budgetary policy should be tightened in direction of limitation of budget expenses increase, including investment expenses; limitation in use of oil proceeds as guaranteed transfer by the government, and rejection of the tax burden decrease policy.

Monitoring of the real sector enterprises will be continued to estimate tendencies and directions in development of the non-financial corporations sector, economic conditions and financial status of enterprises, and to enlarge practical use of the monitoring results in activities of the National Bank in determination of interest and exchange rate policies, in definition of norms for minimal reserve requirements and in development of financial stability reports.

The National Bank will keep to floating exchange rate regime, i.e. dynamics of a nominal exchange rate on domestic market will be determined depending on demand and supply of the foreign exchange. The National Bank will not set any targets or corridors of fluctuation for tenge rate. The National Bank intends to decrease its share on domestic foreign exchange market.

The National Bank will perform operations on foreign exchange market, mainly, for purposes of the National Fund. According to the Rules for conversion and reconversion of the National Fund assets, the National Bank, together with foreign exchange sale for the National Fund from international reserves of the National Bank, can purchase foreign exchange on domestic market.

Currency regulation and currency control. According to the Law of the Republic of Kazakhstan “On Currency Regulation and Currency Control” dated January 1, 2007 the previous restrictions for capital operations were cancelled completely. From that point, complete convertibility of tenge will be ensured provided that no exchange restrictions are applied.

Absence of exchange restrictions means high mobility of capital flows, which can create potential risks of destabilization of the situation on foreign exchange and financial markets. Under such conditions the National Bank could increase monitoring of exchange operations relating to capital flow and continue improving of the foreign economic operations information base and analysis of demand and supply sources on domestic foreign exchange market.

As for payment systems, the National Bank will continue supporting of high-tech operation of the payment systems to ensure safe and timely payments and money transfers between different economic subjects of Kazakhstan. In addition, this activity will include systems for control and monitoring of services operators and users of the payment systems. At the same time, in medium-term development of the payment systems the National Bank will place high emphasis on further development of the National system of payment cards, formation of Payment Gateway in formation of Electronic Government System of the Republic of Kazakhstan, and establishment of a new Reserve Center for payment systems.

As for stability of the financial system, the National Bank will cooperate closely with FSA. In addition, the National Bank will continue improvement of the Financial Stability Report. One of the National Bank and FSA’s targets for a coming period is formation of a system of financial stability indicators, identification and prevention of situations which can have a negative effect on stability of the financial system. Instruments preventing development of crisis situations will be developed. An important part of these activities contributing to strengthening of confidence in the financial system of Kazakhstan is accessibility of analytical work results for the large public on a regular basis.

In accordance with the Concept of Development of Financial Sector of the Republic of Kazakhstan for 2007-2011, one of the courses to regulate the financial sector will be increase in efficiency of foreign debt management of the banking sector of the country.

To increase a qualitative level of cooperation and organization of activities for timely identification of risks for financial stability and to carry out a coordinated policy for regulation of risks for financial relations subjects in accordance with international practice, in 2007 the National Bank, together with FSA and Government, will develop and sign the Memorandum of Financial Stability. This document will regulate competence of authorities as regards risks regulation for financial stability, a procedure of information cooperation, a form of regular consultations for financial stability issues, approaches and principles for realization of agreed measures of regulatory impact.

Appendix 1

**FORECASTS OF MAIN INDICATORS OF MONETARY POLICY ON 2007 - 2009
(SCENARIO OF MODERATE OIL PRICES AND
MODERATE CAPITAL INFLOW)**

	<i>(end of period)</i>			
	2006	2007	2008	2009
Inflation rate (average annual), %	8,6	6,2-7,2	6,0-7,0	6,0-7,0
Official refinancing rate, %	9,0	8,0	7,5	7,5
Total international reserves of the National Bank, USA bln. dollars	19,1	21,3	23,2	25,2
<i>change in %</i>	<i>170,4</i>	<i>11,3</i>	<i>8,9</i>	<i>8,7</i>
Money base, bln. tenge	1501	1828	2221	2468
<i>change in %</i>	<i>126,5</i>	<i>21,8</i>	<i>21,5</i>	<i>11,1</i>
Money supply, bln. tenge	3716	5046	6439	7753
<i>change in %</i>	<i>79,9</i>	<i>35,8</i>	<i>27,6</i>	<i>20,4</i>
Deposits of residents, bln. tenge	3115	4272	5464	6574
Bank credits to economy, bln. tenge	4736	6161	7766	9647
Monetization level of economy, %	38,1	42,5	45,9	46,9

**FORECASTS OF MAIN INDICATORS OF MONETARY POLICY ON 2007 - 2009
(SCENARIO OF MODERATE OIL PRICES AND
HIGH CAPITAL INFLOW)**

	<i>(end of period)</i>			
	2006	2007	2008	2009
Inflation rate (average annual), %	8,6	7,3-8,3	6,9-7,9	6,9-7,9
Official refinancing rate, %	9,0	9,0	8,5	8,5
Total international reserves of the National Bank, USA bln. dollars	19,1	24,1	28,1	32,1
<i>change in %</i>	<i>170,4</i>	<i>26,2</i>	<i>16,6</i>	<i>14,2</i>
Money base, bln. tenge	1501	2129	2683	3293
<i>change in %</i>	<i>126,5</i>	<i>41,8</i>	<i>26,0</i>	<i>22,7</i>
Money supply, bln. tenge	3716	5375	7040	8877

	<i>change in %</i>	79,9	44,7	31,0	26,1
Deposits of residents, bln. tenge		3115	4528	5901	7460
Bank credits to economy, bln. tenge		4736	6682	8914	11153
Monetization level of economy, %		38,1	44,5	48,4	51,3

**FORECASTS OF MAIN INDICATORS OF MONETARY POLICY ON 2007 - 2009
(SCENARIO OF HIGH OIL PRICES)**

		2006	2007	2008	2009
				<i>(end of period)</i>	
Inflation rate (average annual), %		8,6	8,2-9,2	8,0-9,0	8,0-9,0
Official refinancing rate, %		9,0	9,7	9,5	9,5
Total international reserves of the National Bank, USA bln. dollars		19,1	25,4	31,8	37,7
	<i>change in %</i>	170,4	33,0	25,3	18,4
Money base, bln. tenge		1501	2295	3190	4170
	<i>change in %</i>	126,5	52,8	39,0	30,7
Money supply, bln. tenge		3716	5636	7850	10249
	<i>change in %</i>	79,9	51,7	39,3	30,6
Deposits of residents, bln. tenge		3115	4700	6552	8662
Bank credits to economy, bln. tenge		4736	7151	10033	13062
Monetization level of economy, %		38,1	46,6	54,0	59,2