



**NATIONAL BANK OF THE
REPUBLIC OF KAZAKHSTAN
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**Regarding the Situation in the Financial
Market**

1. Inflation

According to the official data from the Agency of Statistics of the Republic of Kazakhstan, in September 2012 the inflation was at 0.6% (in September 2011 – 0.3%). Prices for foodstuffs increased by 0.4% (the decrease by 0.2%), for non-food products – by 0.2% (the growth by 0.4%), and for paid services – by 1.3% (the growth by 1.0%).

In the previous month, the highest increase in the foodstuffs market was demonstrated in prices for flour - by 3.5%, vegetables – by 1.1%, including cabbage – by 6.9%, potatoes – by 1.6%, for vegetable oil – by 1.0%, bread – by 0.7%, fish and sea food – by 0.6%, and macaroni products – by 0.4%. The prices of sugar decreased by 1.3%, of cereals – by 0.7%, and of butter – by 0.4%.

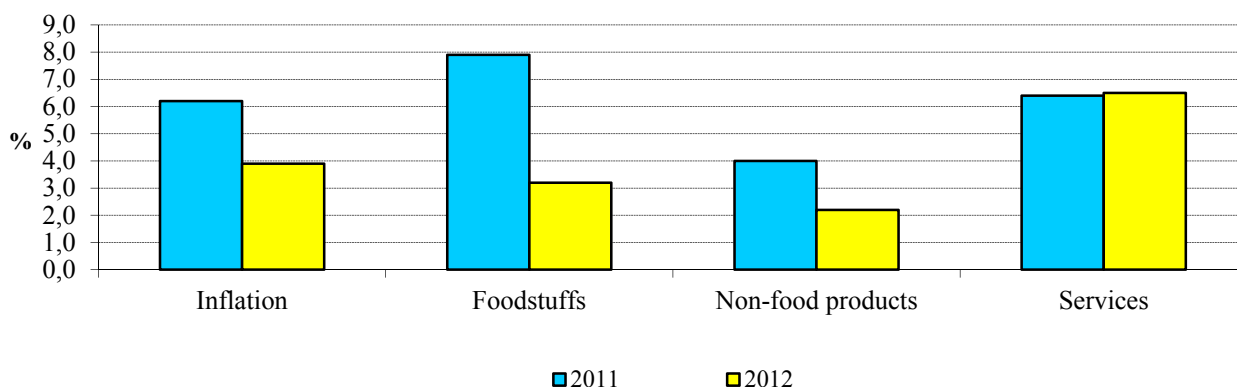
In the group of non-food products, prices for clothes and footwear increased by 0.4%, domestic goods – by 0.2%, and medications – by 0.2%. The cost of gasoline remained unchanged, and the cost of diesel fuel decreased by 0.1%.

In the group of paid services, price of utilities increased by 0.9%. The tariffs for hot water increased by 3.5%, sewage – by 1.5%, cold water – by 1.4%, and electricity – by 1.1%. Over the past month the prices of education services increased by 7.8%, including the university education – by 13.7%, secondary education – by 2.8%, and healthcare services – by 0.5%.

In January-September 2012, the inflation accounted for 3.9% (in January-September 2011 – 6.2%). Since the beginning of 2012, the price of foodstuffs increased by 3.2% (by 7.9%), for non-food products – by 2.2% (by 4.0%), and for paid services – by 6.5% (by 6.4%). (Figure 1).

Figure 1

Inflation and its Components in January-September 2011 and 2012



In September 2012, the annual inflation accounted for 5.0% (in December 2011 – 7.4%). Over the last 12 months the price of foodstuffs has increased by 4.4% (by 9.1%), non-food products – by 3.4% (by 5.3%), and paid services – by 7.5% (by 7.3%).

2. The Balance of Payments of the Republic of Kazakhstan for the 1st Half of 2012 (reported data)

The surplus of the current account balance in the first half of 2012 increased by 27.8% as compared to the respective indicator for 2011 and was over US\$ 8.7 bln. or 10.4% of GDP (9.2% in the first half of 2011).

The average world oil price (Brent) during the 1st half of 2012 was at US\$ 113.7 per barrel, slightly exceeding its average level in the 1st half of 2011 (US\$ 111.0 per barrel). As a result of outstripping growth rates of contract oil prices as compared to the world price growth, exports of goods in the 1st half of 2012 increased versus the 1st half of 2011 by 10.4% and amounted to US\$ 46.9 bln. Imports of goods increased by 13.1%, exceeding US\$ 20.9 bln.

The official exports of goods amounted to US\$ 46.8 bln., of which US\$ 29.7 bln. (or 63.4%) fall on exports of oil and gas condensate. The export value of ferrous metals increased by 22.3%, of non-ferrous metals – by 30.3%. Whereby the increase in the exports of ferrous and non-ferrous metals to a large extent occurred only due to the growth in physical supplies.

Imports of goods according to the official trade statistics increased by 21.3% and amounted to US\$ 19.7 bln. The additional growth in the imports of investment goods, which comprised the highest percentage in the imports in the 1st half of 2012 (39.0%), was 40.9%. The import of interim consumption goods remained virtually unchanged (at the level of the 1st half of 2011), amounting to US\$ 6.8 bln. Consumer goods demonstrated a 25.6% increase on the whole. At the same time, imports of foodstuffs decreased by 3.6%, and additional growth in the imports of non-food products accounted for 52.2%. It should be noted that in all groups of the main product range additional growth of physical volumes was observed.

As a result, in the 1st half of 2012 a positive trade balance increased by 8.3% and amounted to US\$ 26.0 bln., overcovering a net outflow of resources from operations related to services, earnings and transfers.

The deficit in the balance of services in the 1st half of 2012 amounted to US\$ 3.4 bln., having increased as compared to the 1st half of 2011 by 52.4%; this was related to the further infrastructure development of oil and gas fields of the country.

The deficit in the balance of investment returns of US\$ 12.5 bln. in the 1st half of 2012, just as before, was caused by the distribution of income to foreign direct investors, which, despite its decrease (by 14.4%) as compared to the respective indicator of the 1st half of 2011, amounted to US\$ 11.6 bln. Interest payments to lenders not connected by direct investment relationships increased by 9.5% in the 1st half of 2012.

The financial account showed net outflow of US\$ 920.4 mln, which was primarily ensured by operations in the 2nd quarter of 2012.

Net outflow of US\$ 1.3 bln. on investments abroad reflects the increase in the shareholders' equity of foreign branches and subsidiaries ensured by the Kazakh companies. At the same time, in the 1st half of 2012 slight additional growth in debt liabilities of the Kazakh shareholders to their foreign branches was observed (by US\$ 244 mln.).

Gross inflow of foreign direct investments (FDIs) into Kazakhstan amounted to US\$ 10.9 bln. versus US\$ 11.1 bln. in the 1st half of 2011. Additional growth in the shareholders' equity from US\$ 1.7 bln. to US\$ 3.2 bln. in the 1st half of 2012 was primarily due to the purchases by non-residents of participation interests in such Kazakh companies as GSM Kazakhstan of Kazakhtelecom OJSC and Shubarkol Komir JSC, as well as by the project financing under the SPIIAD. At the same time, in the 1st half of 2012 there was an outflow on the shareholders' equity associated with the closing of the purchase of 10% participation interest in the Karachaganak Project by the Republic of Kazakhstan.

In addition, gross inflow of FDIs was partially offset by repaid liabilities on the inter-company debt as well as by the decreased re-investments as a result of active distribution of prior period earnings. As a result, net inflow of FDIs into Kazakhstan in the 1st half of 2012 amounted to US\$ 7.2 bln.

As a result, a positive balance on direct investments in the 1st half of 2012 was US\$ 6.0 bln. versus US\$ 5.1 bln. in the 1st half of 2011.

Net outflows on portfolio investments of US\$ 9.2 bln. were mainly ensured by the growth in foreign assets (by US\$ 8.3 bln.) of Kazakhstani residents in the form of securities, which, in its turn, occurred due to the growth in the National Fund's portfolio by US\$ 8.6 bln. concurrently with decreased foreign assets of other sectors.

In the 1st half of 2012 liabilities on portfolio investments decreased by US\$ 0.9 bln. The reason for this was the repayment by banks of their liabilities on debt securities.

Net inflow of liabilities on loans and advances from non-residents by non-bank sector entities and decreased assets of banks on loans and advances to non-residents ensured net outflows on other medium- and long-term investments of US\$ 2.5 bln.

At the same time, since non-residents failed to ensure full repayment of debt on loans and advances maturing in the 1st half of 2012, the decrease in assets on long-term bank loans was fully offset by the growth in short-term bank assets in the form of a past due.

A net inflow on other short-term capital of US\$ 1.8 bln. was mainly ensured by decreased bank assets with foreign accounts as well as by increased assets of non-residents with accounts at the Kazakh banks.

Gross External Debt

At June 30, 2012 gross external debt amounted to US\$ 132.3 bln., of which US\$ 5.0 bln. or 4% is represented by the external debt of the public sector (liabilities of the Government and the National Bank), US\$ 64.8 bln. or 49% falls on the inter-company debt, and liabilities of the banking sector amount to US\$ 14.5 bln. or 11%.

During the 2nd quarter of 2012 gross external debt increased by US\$ 2.8 bln. due to the external debt of "Other sectors" (including inter-company debt) which accounts for US\$ 3.3 of additional growth, whereas the external debt of other sectors ("general government sector" (the Government), "Monetary authorities" (National Bank) and "Banks" (second-tier banks and the Development Bank of Kazakhstan) slightly increased during the period (by US\$ 105.4, US\$ 118.6 and US\$ 328.2 mln., respectively).

Such decrease in liabilities of the Government mainly occurred due to decreased volumes of treasury bonds of the Ministry of Finance held by non-residents by US\$ 154.6 bln.

The decrease in foreign liabilities of the National Bank was mainly associated with the decrease in the deposits of non-residents by US\$ 108.4 bln.

The decrease in the external debt of banks was mainly caused by the decreased liabilities under the "Bonds and Other Debt Securities" item by US\$ 446.1 bln. ATF Bank redeemed its 7-year eurobonds with the par of US\$ 200 mln., Bank CenterCredit called eurobonds worth US\$ 144.7 mln., and also the cost of eurobonds of banks decreased (US\$ -380.1 mln.) both because of fluctuations in terms of value and exchange rate. Such decrease in liabilities partially leveled down by the fact that BTA Bank put on its books the recovery units, which were recorded at the market value according to the external debt methodology.

In addition, the rate of the principal repayment on loans borrowed by banks (US\$ 717.0 mln.) by far exceeded the rate of their drawdown (US\$ 399.5 mln.). At the same time, in the second quarter deposits of non-residents with accounts at the Kazakh banks increased significantly (by US\$ 473.8 mln.).

The increase in external debt of "Other sectors" in the 2nd quarter of 2012 mainly occurred due to the loans borrowed by residents both from direct investors and from other non-residents. The growth in this debt category amounted to US\$ 3.8 bln. (including a one billion Dollar loan provided by the Karachaganak Petroleum Operating Group B.V. to the National Company "KazMunaiGas" to purchase a 10% participation interest in the Karachaganak project). Such growth was partially leveled down by the payment in the 2nd quarter of 2012 of previously accrued dividends to direct investors and coupons on debt securities as well as by the decreased value of eurobonds of issuers from "Other sectors" (US\$ -241.0 mln.) in the secondary securities markets.

Thus, at June 30, 2012 external debt of "Other sectors" amounted to US\$ 112.8 bln., of which the inter-company debt amounted to US\$ 64.8 bln., liabilities to other (non-affiliated) non-residents – US\$ 48.1 bln.

Relative external debt parameters linked to the country's GDP virtually remained unchanged during the 2nd quarter of 2012. Specifically, at June 30 just like at March 31, 2012 the ratio of gross external debt and GDP was 67.7%.

However, due to the fact that the growth rates of external debt during the 2nd quarter of 2012 exceeded the growth rates of exports of goods and services (EGS), relative parameters linked to this indicator slightly deteriorated. So, at June 30, 2012 the ratio of gross external debt and EGS was 135.4% versus 131.7% at the end of the 1st quarter of 2012.

Since the growth in the country's liabilities outpaced the growth in assets, net external debt of Kazakhstan during the 2nd quarter of 2012 increased by US\$ 2.4 bln. and amounted to US\$ 14.6 bln. at June 30, 2012.

International reserves of the National Bank represent an important component of foreign assets, particularly in terms of smoothing the problems with foreign exchange liquidity. At June 30, 2012 international reserves exceeded short-term external debt based on the original maturity by 3.2 times.

3. International Reserves and Monetary Aggregates.

In September 2012 international reserves of the National Bank increased. Gross international reserves of the National Bank increased by 1.7% to US\$ 30.1 bln. (since the beginning of the year – the growth by 2.6%). Net international reserves of the National Bank increased by 1.7% and amounted to US\$ 29.6 bln. (since the beginning of the year – the growth by 2.7%). Foreign currency proceeds to the Government's accounts with the National Bank, increased foreign currency balances of bank correspondent accounts with the National Bank were partially neutralized by operations on the servicing of the Government's external debt and asset replenishments of the National Fund. As a result, net currency reserves (FCC) during September 2012 increased by 0.5%. Assets denominated in gold increased by 7.1% as a result of performed transactions and its price growth in the global markets.

During September 2012 the country's total international reserves including assets of the National Fund denominated in foreign currency (according to preliminary data – US\$ 55.4 bln.) increased by 2.0% to US\$ 85.5 bln. (since the beginning of the year – the growth by 17.2%).

During September 2012, the reserve money expanded by 5.1% and amounted to KZT 2953.1 bln. (since the beginning of the year – the expansion by 4.1%). Narrow reserve money, i.e. reserve money excluding time deposits of banks with the National Bank, expanded by 5.7% to KZT 2856.6 bln.

During August 2012, the money supply decreased by 2.4% to KZT 10328.2 bln. (since the beginning of the year – the growth by 5.9%). The volume of cash in circulation increased by 0.5% to KZT 1405.2 bln. (since the beginning of the year – the growth by 2.9%), and deposits in the banking system decreased by 2.8% to KZT 8923.1 bln. (since the beginning of the year – the growth by 6.4%). The share of deposits in the structure of money supply decreased from 86.8% in July 2012 to 86.4% in August 2012. The main reason for the growth in the share of deposits was the increased rates of the growth in the volume of cash in circulation against the decreased deposits.

The money multiplier increased from 3.59 in July 2012 to 3.68 at end-August 2012 due to higher growth rates of the reserve money contraction versus the decreased money supply recorded in August 2012.

4. Foreign Exchange Market

In September 2012, the exchange rate of the Tenge versus the US Dollar was fluctuating within KZT 149.34–150.15 per 1 US Dollar. During September 2012, the Tenge depreciated by 0.2%, and at the end of the month the stock-exchange rate of the Tenge was KZT 149.86 per 1 US Dollar.

In September 2012, the volume of stock exchange transactions at the Kazakhstan Stock Exchange including transactions at supplementary auctions decreased as compared to August

2012 by 31.5% and amounted to US\$ 4.3 bln. In the off-exchange foreign currency market the transaction volume increased by 4.5% and amounted to US\$ 2.3 bln.

The total transaction volume in the domestic foreign currency market decreased by 22.2% and amounted to US\$ 6.5 bln.

5. Government Securities Market

In September 2012, 11 auctions offering government securities of the Ministry of Finance were held. The following government securities were placed through these auctions: 3-year MEOKAMs (KZT 5.0 bln.), 5-year MEOKAMs (KZT 8.1 bln., KZT 10.3 bln., KZT 8.6 bln., KZT 0.3 bln. and KZT 0.5 bln.), 7, 10, 15, 16-year MEUKAMs (KZT 12.9 bln., KZT 2.1 bln., KZT 5.1 bln. and KZT 6.3 bln.), and 19-year MEUZHKAMs (KZT 30 bln.).

Effective yield of the placed securities was as follows: for 3-year MEOKAMs – 4.40%, 5-year MEOKAMs – 4.45%, 4.55%, 4.86%, 4.55% and 4.55%, respectively, for 7, 10, 15, 16-year MEUKAMs – 6.00%, 5.30%, 5.49% and 5.50, respectively, and for 19-year MEUZHKAMs – 0.01% above the inflation rate.

At end-September 2012, the volume of outstanding securities of the Ministry of Finance amounted to KZT 2546.4 bln., having increased by 3.6% as compared to the previous month.

Short-term Notes of the National Bank of Kazakhstan. The volume of notes issued by the National Bank during September 2012 as compared to August 2012 demonstrated nearly a two-fold reduction and amounted to KZT 26.6 bln.

One auction was held to place 3-month notes (KZT 14.1 bln.) and 1 auction to place 9-month notes (KZT 12.5 bln.).

Effective yield of the placed notes was as follows: for 3-month notes – 1.05%, and for 9-month notes – 1.82%.

The volume of notes in circulation at end-September 2012 decreased by 7.5% as compared to August 2012 and amounted to KZT 414.9 bln.

6. Interbank Money Market

In August 2012, the total volume of placed interbank deposits decreased by 7.1% as compared to July 2012, amounting to the equivalent of KZT 1827.4 bln.

The volume of placed interbank deposits in the Tenge increased by 63.2% and amounted to KZT 473.6 bln. (25.9% of the total volume of placed deposits). The average weighted interest rate on the placed interbank deposits in the Tenge in August 2012 increased from 0.68% to 1.02%.

The volume of deposits attracted by the National Bank from banks in August 2012 as compared to July increased by 56.4% to KZT 438.4 bln.

In August 2012 as compared to July 2012, the volume of placed dollar deposits decreased by 17.6% and amounted to US\$ 8.6 bln. (70.6% of the total volume of placed deposits). The average weighted interest rate on the placed deposits in the US Dollars in August 2012 decreased from 0.15% to 0.13%.

The volume of placed deposits in the Russian rubles decreased by 18.8%, amounting to RUR 10.3 bln. (2.7% of the total volume of placed deposits). The average weighted interest rate on the placed deposits in the Russian rubles changed from 5.08% to 5.05%.

The volumes of placed Euro deposits are insignificant – 0.8% of the total volume of placed deposits.

The share of interbank deposits in foreign currency decreased during August 2012 from 85.2% to 74.1% of the total volume of placed deposits. The share of foreign currency deposits placed with non-resident banks decreased from 85.1% to 73.5% of the total volume of placed interbank deposits.

7. Deposit Market

The volume of deposits of residents with depository institutions during August 2012 decreased by 2.8% to KZT 8923.1 bln. (since the beginning of the year - the growth by 6.4%).

During the month deposits of corporate entities decreased by 4.7% to KZT 5837.1 bln., and deposits of individuals increased by 0.9% to KZT 3086.0 bln.

In August 2012, the volume of foreign currency deposits decreased by 3.6% to KZT 2833.3 bln., and deposits in the domestic currency decreased by 2.5% to KZT 6089.7 bln. In August 2012, the percentage of the Tenge deposits increased to 68.2% versus 68.0% in July 2012.

Deposits of the population with banks (including non-residents) increased during August 2012 by 0.9% to KZT 3118.1 bln. (since the beginning of the year - the growth by 13%). In the structure of household deposits the Tenge deposits increased by 1.0% to KZT 1804.2 bln., and foreign currency deposits increased by 0.7% to KZT 1313.9 bln. As a result, the percentage of the Tenge deposits increased to 57.9% versus 57.8% in July 2012.

In August 2012, the average weighted interest rate on the Tenge time deposits of non-bank corporate entities was 2.1% (in July 2012 – 2.0%), and on deposits of individuals – 7.8% (8.0%).

8. Credit Market

During August 2012, the total volume of bank credits to the economy increased by 1.1%, amounting to KZT 9394.0 bln. (since the beginning of the year – by 6.6%).

In August 2012, the volume of credits in the domestic currency increased by 1.8% to KZT 6405.5 bln. (since the beginning of the year – by 12.7%), and the volume of foreign currency credits decreased by 0.3%, amounting to KZT 2988.5 bln. (since the beginning of the year - the decrease by 4.5%). The percentage of the Tenge credits in August 2012 increased to 68.2% versus 67.7% in July 2012.

In August 2012 long-term lending increased by 0.5% to KZT 7609.1 bln., and short-term lending increased by 4.0% to KZT 1784.8 bln. As a result, the percentage of long-term credits in August 2012 decreased to 81.0%, versus 81.5% in July 2012.

Credits to corporate entities during August 2012 increased by 0.7%, amounting to KZT 6750.9 bln., and credits to individuals increased by 2.2% to KZT 2643.1 bln. The percentage of credits to individuals in August 2012 increased to 28.1%, versus 27.8% in July 2012.

SME lending during August 2012 increased by 1.0% to KZT 1379.3 bln., accounting for 14.7% of the total volume of credits to the economy.

In the sectoral breakdown, the most significant amount of credits to the economy falls on such sectors as trade (the share in the total volume is 19.8%), construction (14.7%), industry (12.2%), transport (3.9%) and agriculture (3.1%).

In August 2012, the average weighted interest rate on the Tenge credits provided to non-bank corporate entities was 11.2% (in July 2012 – 11.1%), and on credits to individuals – 20.5% (20.8%).