



## PRESS - RELEASE №18

### The base rate unchanged at 9%

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Almaty

*The National Bank of Kazakhstan has decided to keep the base rate at 9% with a corridor of +/- 1%. Annual inflation remains within the target range of 2018 and, according to the National Bank's estimates, its further dynamics will be formed within the target range of 2018 and 2019. However, on the background of possible realization of inflation risks in both short-term and medium-term, especially from the external sector and budgetary policy, the potential to ease monetary conditions further this year is limited.*

**The inflation** continued downward trend in accordance with the estimates of the National Bank. In the first half of 2018, lower rate of inflation (2.6%) compared to the same period of the previous year (3.7%) is being observed, which contributed to the downward slide in inflation to 5.9% in June. A slowdown in the inflation rate is due to the influence of favorable seasonal factors in food and agricultural markets and the continuing decline in the price levels for consumer goods by domestic producers.

However, due to the low rate of inflation in the 3rd quarter of last year, which is taken into account in statistical calculations, the prominent deceleration of annual inflation by the end of this year, according to the National Bank' estimates, is not expected.

Households have relatively stable **inflation expectations**. The quantitative assessment of the inflation for a year ahead in June remained at the level of February and May this year – 6.0%. Changes in expectations in March (lower) and April (higher) reflected the impact of current market conditions.

**The perceivable inflation** of households continues to improve. The share of the responders, who believe that “in the past 12 months the price of goods and services has increased with the faster rate than before”, reached a minimum level for the entire observation period and amounted to 44.2% in June. The maximum historical value is shown by the share of respondents who noted the lowest level or declining dynamics of consumer prices over the past year – 22.5%.

**The economic activity** continues to demonstrate the positive dynamics. In January-May of 2018 the short-term economic indicator amounted to 5.1% in the annual terms. A positive contribution to growth was made by all major industries – mining and manufacturing, communications, trade, transportation and agriculture.

At the same time, an economic growth rate is above its potential output and is supported by the expansion of aggregate demand, both by domestic consumption and investment, and external demand, which intensify the inflationary pressures. One of the factors that will continue to ensure the increase of consumption spending, remains the socially oriented fiscal policy.

The situation **in foreign markets** has become multidirectional.

The dynamics of oil prices continues to have a positive impact, oil prices have been formed above 70 US dollars per barrel, experts' forecasts for further price dynamics remain favorable.

In June, for the first time since the start of the year, global food prices have fallen. The FAO Food Price index has decreased by 1.3%, which is due to increased global trade tensions among countries. The cereal prices have continued to fall. However, the prospects for global cereal production would likely deteriorate further, which might add to inflationary pressure.

In the medium term, expected increase of inflation in the countries – main trade partners is a factor that is likely to exacerbate inflationary pressures.

In June, as a result of the tightening of global monetary conditions, the expected strengthening of the US dollar in the global markets and a change in the direction of capital flows from the currencies of emerging markets, including tenge, to the US dollars, were observed. In particular, the volume of short-term notes of the National Bank held by non-residents decreased from 454 billion tenge in March to 241 billion tenge in June this year, which was one of the factors that weakened tenge.

**Monetary conditions** remain on the neutral level. In order to manage inflation expectations against the backdrop of unstable external factors and the likelihood of persistence of inflationary risks, will probably cause monetary conditions to tighten.

Given that the operational benchmark of monetary policy – the indicator TONIA – is closer to the lower bound of the interest rate corridor, the National Bank is also considering the possibility to enhance the operational effectiveness of monetary regulation. In the second half of 2018, the issue of narrowing corridor boundaries will be considered.

The next decision on the base rate will be announced on September 3, 2018 at 17:00 Astana time.

For more detailed information please contact:

+7 (727) 2704 585

+7 (727) 3302 497

e-mail: [press@nationalbank.kz](mailto:press@nationalbank.kz)

[www.nationalbank.kz](http://www.nationalbank.kz)