



NATIONAL BANK OF KAZAKHSTAN

## Press-release №14

### The base rate reduced to 9%

June 4, 2018

Almaty

*The National Bank of Kazakhstan has decided to reduce the base rate to the level of 9% with a corridor of +/-1%. The annual inflation rate has continued to decrease within the target range for 2018. The current level of the base rate continues to ensure maintaining the inflation deceleration within the target corridor in the current and following year and the medium-term target for the inflation rate at the level of 4% as of the end of 2020. Along with that the monetary policy conditions remain neutral.*

*However on the background of the possibility of the inflationary risks realization in both short-term and medium-term, the potential for the further cuts of the base rate in 2018 has decreased.*

In May **the annual inflation** has continued to decelerate and has amounted to 6.2%. In contrast to the beginning of the year the decrease for all components (food and nonfood goods and services to the households) is being observed.

The main risks that limit the inflation deceleration until the end of the current year and in the following year are the increase of the world food prices, the import of the inflation from the countries – main trade partners, the growth of domestic consumption caused by the increase of consumer and investment demand.

The current **level of inflation in the countries – main trade partners** is at the levels below the target values; however the potential of its disinflationary effect is gradually getting exhausted. The forecast estimates for the medium term demonstrate achievement of the target levels, which raise the risk of the inflationary pressure on the domestic inflation in Kazakhstan.

**The FAO Food Price index** has increased by 2.7% in the annual terms. The cereal and dairy products prices have continued to increase. The tightening of the external monetary conditions is accompanied by the capital outflows from the developing countries.

Observed since the beginning of 2018, the world oil market continues to exert the favorable influence. The oil price averaged at the level close to 70 US dollars per barrel.

Since the beginning of the current year in the economy of Kazakhstan the increase in **the households' consumption**, sustained by the growth of the real income after two years of decrease and also by the consumer lending, is being observed.

The dynamics of the **economic activity** persists. The value of the short-term economic indicator in January-April in 2018 has amounted to 5.0% in the annual terms. The positive contribution was made by the mining (4.9%) and manufacturing (5.9%) industries, trade (6.2%) and also the improving performance in agriculture (3.8%). The growth of the fixed capital investments has amounted to 28.9% in January-April 2018.

Based on that, according to the estimates of the National Bank, the output and the domestic consumption gaps are turning positive, which will intensify the inflationary pressures.

**The inflationary expectations** remain sensitive to the various shocks and mainly depend on the current situation in the market. In April due to the nominal exchange rate shock the expected level of inflation for the year ahead has increased to 6.3%, decreasing to 6.0% in May. The perceivable inflation continues to decrease. The share of the responders, who believes that “in the past 12 months the price of goods and services has increased with the faster rate than before”, has decreased from 48.8% in April to 46.2% in May.

**The monetary conditions** remain on the neutral level. The deceleration of the downtrend of the actual inflation rate and also the increased probability of inflationary risks realization in the medium term restrict the National Bank to further reduce the base rate in the current year. With the purpose to manage the inflationary expectations and to further decrease them, it is possible that the monetary conditions might get tightened in perspective.

The next decision on the base rate will be announced on July 9, 2018 at 17:00 Astana time.

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