



## Press-Release №15

### On inflation forecast

June 5, 2018

Almaty

The National Bank of Kazakhstan has been conducting forecast rounds 4 times a year in order to produce forecasts of key macroeconomic variables, mainly inflation rate, in the medium term (the next 7 quarters). Based on the estimates and projections, the National Bank of Kazakhstan takes decisions on monetary policy, including the level of the base rate.

On June 2, 2018 the National Bank of Kazakhstan completed forecast round "May-June 2018"<sup>1</sup>. The forecast period covers period from Q2 2018 to Q4 2019.

The National Bank of Kazakhstan has considered the price of Brent oil being 60 US dollars per barrel as a baseline scenario for the whole forecast period<sup>2</sup>.

According to forecasts, annual inflation in Kazakhstan in 2018 will be within the target range of 5-7%, and in 2019 it will smoothly enter into the new target range of 4-6%, while remaining closer to the upper boundary (graph 1). In comparison with the previous forecast round "February-March 2018", the inflation trajectory has been revised upwards. This was due to the recovery of domestic consumer demand amid the growth in the real income of the population; the growth of world prices of oil and energy resources, cereals, and dairy products; high level of price index in the manufacturing industry (in annual terms); deterioration of the external inflationary background associated with possible acceleration of inflation in Russia; tightening of external monetary conditions.

The economic growth in 2018-2019 is estimated to be 3.5% and 2.7%, respectively (*2.9% and 2.8% in the previous forecast round, respectively*). More positive dynamics of economic activity in 2018 will be observed against the background of the recovery of domestic consumer demand, accompanied by the growth of consumer lending. With a moderate slowdown in inflationary processes, the positive growth rates of real incomes and wages is assumed to maintain. The positive dynamics of investment demand will be entailed by both an increase in investment in fixed assets as a result of projects in the mining sector and a positive dynamics of investment in housing construction. An increase in the production and export of oil and gas at the largest fields will contribute to the overall growth of exports of goods and services. At the same time, an increase in imports against the expansion of domestic consumer and investment demand will restrain GDP growth.

According to the estimates of the National Bank of Kazakhstan, the output gap in Kazakhstan in the short term will be positive for the first time since 2014, which will have a weak pro-inflationary pressure. In the medium term, it is assumed that the output will reach its potential.

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<sup>1</sup> The forecast of macroeconomic variables is based on statistical information as of May 15, 2018.

<sup>2</sup> According to the survey and forecasts of major investment banks and international institutions (Thompson Reuters, Bloomberg, World Bank, IMF), the average price of Brent crude oil will account for 66.2 US dollars per barrel (58.9 US dollars per barrel during the previous forecast round) in 2018 and 64.9 US dollars per barrel in 2019.

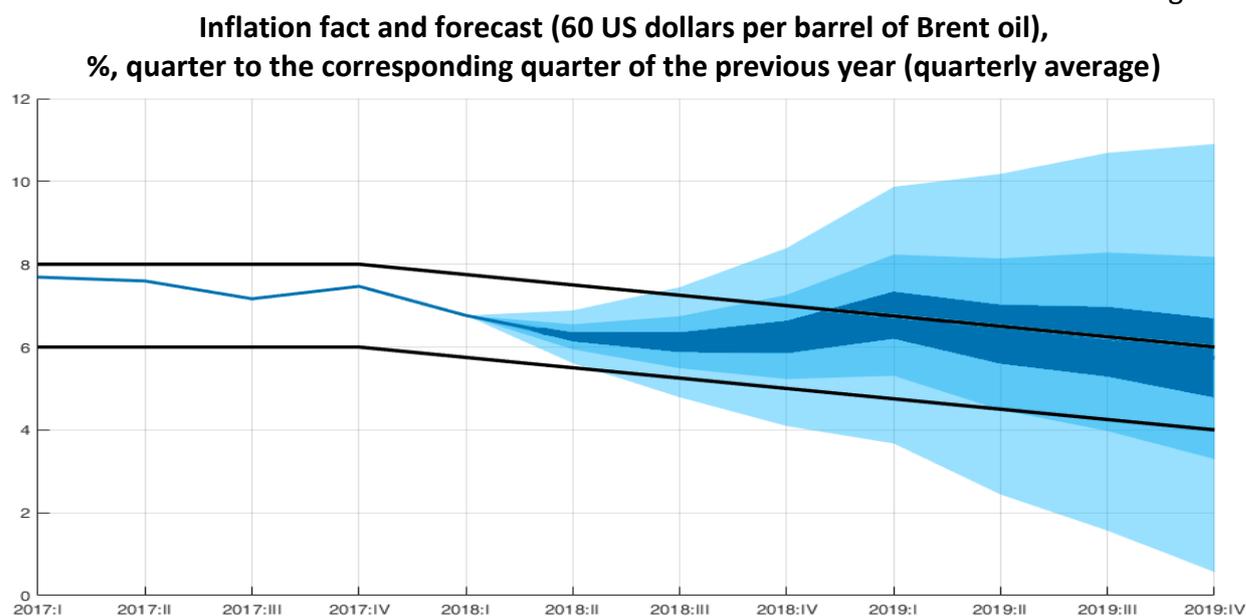
In general, the economy remains exposed to external shocks due to weak diversification. Oil prices continue to be among the main factors that influences the dynamics of economic activity.

In turn, with the implementation of the scenario of 50 US dollars per barrel, annual inflation may exceed the upper boundary of the target range in 2018-2019, which will require an adjustment of monetary policy.

The risk profile has undergone some changes due to reinforcement of the inflationary risks from the demand side. In addition, supply shocks and non-anchored inflation expectations continue to be the main risks that affect the inflation forecasts.

Detailed information on the results of the forecast round "May-June 2018" will be published in the "Inflation Report" for Q1 2018 at the official website of the National Bank of Kazakhstan.

Figure 1



Source: Committee on Statistics of the MNE

Calculations: National Bank of the Republic of Kazakhstan

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