



# NATIONAL BANK OF KAZAKHSTAN

## Press-release № 40

### On inflation forecast

November 29, 2017

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 November 23, 2017 the National Bank of Kazakhstan completed forecast round "October-November 2017"<sup>1</sup>. The forecast period covers period from Q4 2017 to Q2 2019.

The price of oil at 50 US dollars per barrel is considered as a baseline scenario throughout the forecast period<sup>2</sup>.

According to forecasts, annual inflation in Kazakhstan will remain close to the upper bound of the target corridor of 6-8% during Q4 2017, and will start to enter smoothly the target corridor of 5-7% in 2018 (Figure 1). Meanwhile, the path of entering the target corridor has changed upwards compared to the estimates of the previous forecast round "July-August 2017". This reflects the supply shocks in the market for meat products and fruits and vegetables, as well as the petroleum products supply shocks and the weakening of the tenge exchange rate against the US dollar, caused by the non-fundamental factors that led to an increase in inflation expectations. At the same time, the effects of these shocks are expected to disappear in Q2-Q3 2018. Stable oil and grain prices, a decrease in inflation expectations along with weak disinflationary pressure coming from domestic demand will lead inflation to enter the target corridor of 5-7% in 2018 and 4-6% in early 2019.

According to the recent estimates, the economic growth will accelerate to 3.5% in 2017 (3.1% of the previous forecast round) in 2017 and slightly decelerate to 2.8% in 2018 (3.0% of the previous forecast round). The revision of growth rates is related to the acceleration of economic recovery in the real sector in 3Q 2017. The main contribution to economic growth was made by the extraction of mineral resources. The positive dynamics in other sectors of the economy remains. The short-term economic indicator, based on the change in the indices of output in the basic sectors, grew by 5.4% in the first 10 months of 2017 as compared with the corresponding period of the previous year. As expected, the growth of investments in fixed assets continues to support the growth rate of the economy. The current moderate growth rate of investment is expected to remain on the background of the expansion of production activity.

The recovery of household consumption has been slow. On the one hand, it is supported by the growth of retail lending, but on the other hand, is limited by the reduction in real income

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<sup>1</sup> The forecast of macroeconomic variables is based on statistical information as of November 9, 2017.

<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 oil will account for 53.4 and 55.8 US dollars per barrel in 2017 and 2018, accordingly.

of households. In view of this fact, the assessment of the output gap over the forecast horizon was revised from being slightly positive to slightly negative, which indicates that disinflationary pressure in the economy remains throughout the forecast period. The gap is estimated to close in Q2 2019.

Thus, due to the current structure of economic growth in the forecast period, changes related to the diversification of the economy are not expected, which contributes to the significant susceptibility to external shocks.

The preconditions for economic growth in the forecast period have not changed. The recovery of domestic consumption and increase in investments in fixed assets are expected. The growth of imports of consumer and investment goods as a result of expanding domestic demand will restrain GDP growth.

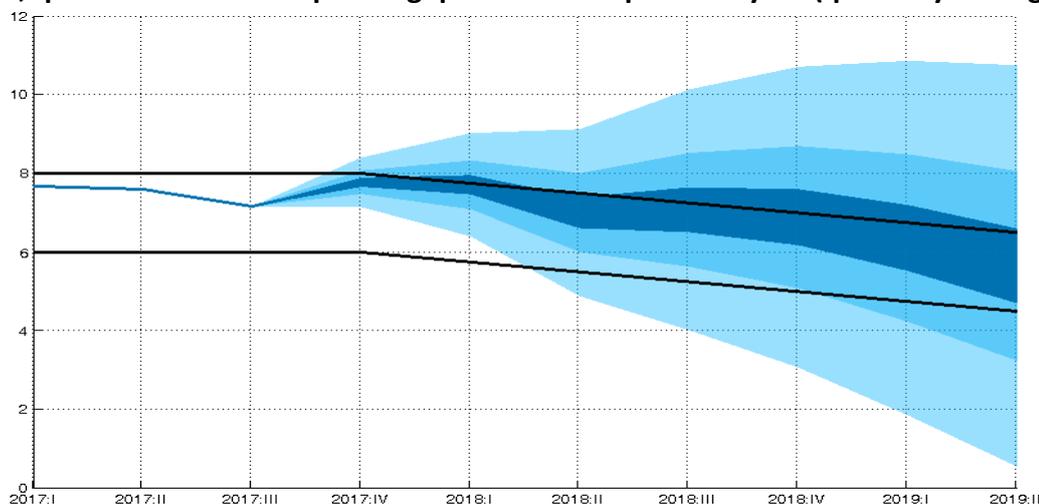
The dynamics of external demand corresponds to the trajectories of the previous forecast round, which assumes the restoration of the European Union's economy; weakly positive GDP growth rates in Russia; subdued but still high economic growth in China.

In turn, with the implementation of the scenario of 40 US dollars per barrel annual inflation will be higher than the upper boundary of the target corridor in 2017 and 2018, which will require tightening of monetary conditions.

Detailed information on the results of the forecast round "October-November 2017" will be published in the "Inflation Report" for Q3 2017 on the official website of the National Bank of Kazakhstan.

Figure 1

**Inflation fact and forecast (50 US dollars per barrel of Brent oil),  
%, quarter to the corresponding quarter of the previous year (quarterly average)**



Source: Committee on Statistics of the MNE  
Calculations: National Bank of the Republic of Kazakhstan

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