PUBLIC INFORMATION NOTICE

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About the dynamics of the real effective exchange rate in 2018

The real effective exchange rate (hereinafter referred to as REER) is a weighted average change in the exchange rate with respect to a basket of currencies of 37 countries - the main trading partners of Kazakhstan, adjusted for changes in relative prices. REER is an indicator of changes in purchasing power over a specific period of time.

In 2018, the REER weakened by 2.1% y/y and was near its equilibrium value. This means that Kazakhstani producers had favorable conditions for competing, both in domestic and foreign markets. Thus, the export potential of Kazakhstan is expanding, which is reflected in the growth of exports of finished goods\(^1\) by 11.7% y/y to $3.1 bln in 11 months of 2018, outpacing growth of total imports (11.1%), and imports of consumer goods (3.8%)\(^2\).

The REER fluctuations decreased after switching to a floating exchange rate. The occurrence of the REER at equilibrium levels indicates an optimal exchange rate policy supporting economic growth.

**Figure 1. Indices of real and equilibrium exchange rates*\)**

*Note: 1) the equilibrium was calculated by Hodrick-Prescott filter with the assumption of slightly weakened real effective exchange rates in early 2019. 2) Increase means strengthening, decrease - weakening of the REER index.*

\(^1\) The main finished export goods include: food products (34%), chemical products (24%), bearings, batteries and transformers (16.4%) and metal products (13.5%).

\(^2\) According to the MNE RK, STC MF RK
The dynamics of REER were mainly determined by the change in nominal rates. In the 1st half of 2018, the tenge appreciated against the Russian ruble due to a new round of US sanctions policy; In the period from May to October, the REER had been strongly influenced by euro/tenge rate in the context of tightening external monetary conditions. At the same time, in the 4th quarter, the main contribution to the change in the REER was made by the seasonal acceleration of inflation in the European Union and the slowdown of inflation in Kazakhstan.

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