NATIONAL BANK OF KAZAKHSTAN

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Transition towards inflation targeting

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On August 20, 2015, the Government of the Republic of Kazakhstan and the National Bank of the Republic of Kazakhstan (National Bank) released a Joint Statement "On Transition to a New Economic Policy: to Reforms in the Real Economy and New Monetary Policy Regime".

The National Bank's plan for overhauling its monetary policy framework and adopting an inflation targeting regime over the medium term was set out in its "Monetary Policy of the Republic of Kazakhstan till 2020", issued on April 24, 2015. The goal of adopting inflation targeting over the medium term is supported by the International Monetary Fund and is viewed among the best practices implemented by central banks around the globe.

Over the last year, the National Bank has made progress in implementing the various stages of the transition to a new monetary policy framework. This included (i) expanding the currency band to allow greater exchange rate flexibility and subsequently allowing the exchange rate to float freely, (ii) increased National Bank's participation on the local money market with the aim of more effectively regulating liquidity and control short-term money market interest rates, (iii) taking measures to strengthen the health of the banking sector, (iv) enhancing the National Bank's communication strategy, and (v) internally preparing the required analytical tools for the introduction of new monetary policy instruments.

The new monetary policy framework, predicated on a floating exchange rate regime, is aimed at strengthening the interest rate channel and ensuring a more predictable and stable path of inflation. With enhanced liquidity management tools, the National Bank will shortly introduce a new policy interest rate to guide money market interest rates, which in turn will help determine lending rates throughout the economy.

As its new policy interest rate, the National Bank will use the overnight repo rate (Tenge Overnight Index Average), supported by open market operations, to signal the stance of monetary policy as indicated by the National Bank's policy rate announcements. The National Bank's own overnight deposit and lending standing facility rates will form an interest corridor around the new policy rate.

The exchange rate will be determined by the supply and demand for foreign exchange and the National Bank will no longer follow the policy of buying or selling international reserves to keep the exchange rate at a pre-determined level. At the same time, the National Bank will retain the right to intervene on the foreign exchange market should excessive volatility threaten the stability of the financial system.

The National Bank is committed to ensuring price stability and will target the range of 6-8 percent annually (based on year-on-year headline consumer price inflation rate) and financial stability. By 2020, the National Bank will aim at targeting headline inflation in the range of 3-4 percent annually.

Implementing inflation targeting in this measured manner will help ensure the stability of the banking sector and help promote sustained economic growth and shared prosperity.

***Detailed information is available over the phones:*:**
+7 (727) 270 46 39
+7 (727) 270 45 85
+7 (727) 330 24 97
e-mail: press@nationalbank.kz
www.nationalbank.kz