

MONETARY POLICY REPORT

November 2024



NATIONAL BANK OF KAZAKHSTAN



MONETARY POLICY OF THE NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

The monetary policy of the National Bank is a set of measures aimed at regulating the value of money in the economy to ensure price stability. Maintaining low and stable inflation contributes to economic growth and job creation.

The objective of monetary policy is to maintain annual inflation near 5% in the medium term.

The main instrument of the monetary policy of the National Bank is the base rate. By setting the level of **the base rate**, the National Bank determines the target value of the interbank short-term rate to achieve the goal of ensuring price stability in the medium term.

Decisions on the base rate are made by the **Monetary Policy Committee**.

The Monetary Policy Report is a quarterly analytical publication of the National Bank explaining the decision taken by the Monetary Policy Committee on the base rate. The document contains an analysis of the main macroeconomic factors affecting inflation, a forecast of macroeconomic parameters, as well as an assessment of the future trajectory of the base rate.

The document is published in an electronic version on the official Internet resource of the National Bank in Kazakh, Russian, and English. The forecast and analysis of macroeconomic indicators have been prepared on the basis of statistical information as of **November 14, 2024**.

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THE DECISION ON THE BASE RATE OF NOVEMBER 29, 2024

The Monetary Policy Committee of the National Bank has decided to raise the base rate to 15.25%. The decision was made taking into account the updated forecasts of inflation and economic growth, as well as an analysis of the actual data and the balance of risks.

Annual inflation accelerated to 8.5% in October, remaining well above the target level of 5%. Core and seasonally adjusted inflation are also showing an acceleration. Inflation expectations of the population have decreased slightly, but remained at an elevated level.

Inflationary pressures have increased both in the external sector and within the country. External factors include rising global food prices, high inflation and significant exchange rate fluctuations in Russia. Internal pressure is caused by ongoing reforms in the housing and communal services sector, high consumer demand exceeding the possibilities of domestic supply, and increased inflation expectations. The fiscal momentum continues to grow against the background of significant budget expenditures.

Taking into account the actual dynamics of consumer prices and these factors, inflation will approach the medium-term target of 5% slower than previously predicted.

Business activity is showing steady growth. Consumer demand accelerated in the third quarter, as evidenced by an increase in retail trade and the cost of foreign travel. High demand is supported by an increase in budget expenditures and real wages, increasing pressure on prices.

The situation in the oil market has worsened: demand from China is decreasing, and supply is expected to increase. As a result, estimates for the price of Brent crude oil for the baseline scenario have been reduced to \$70 per barrel by the end of the forecast period. External inflationary pressure is expected to remain on the forecast horizon. These factors led to a revision of the medium-term forecasts for inflation and economic growth.

The inflation forecast for 2024 has been updated to 8-9%. In 2025, a higher inflation rate is expected in the range of 6.5-8.5% due to increased fiscal momentum and other factors. In 2026, a moderately tight monetary policy will help slow price growth to 5.5-7.5%. Overall inflation is expected to form near the target in 2027.

The main risks of inflation are associated with increased domestic demand, external inflationary pressures, rising regulated prices and uncertainty in covering the budget deficit.

The forecast of economic growth for 2024 has been updated at the level of 4-4.5%. For 2025-2026, GDP growth expectations have changed compared to the previous forecast. It is assumed that the growth of economic activity will be in the range of 4.5-5.5% in 2025, 4.6-5.6% in 2026, and 3.3-5.3% in 2027.

At the next meetings, the Committee will closely monitor the need for additional tightening of monetary policy in order to return inflation to a steady slowdown trajectory as soon as possible and achieve the target of 5%.

I. ECONOMIC DEVELOPMENT PROSPECTS

1.1. Assessment of the path of the base rate by the Monetary Policy Committee

At the meeting of the Monetary Policy Committee of the National Bank, the members presented their estimates of the most likely trajectory of the base rate for 2024-2026 (Table 1, Graph 1). Compared with the previous forecast round, the estimates have increased throughout the entire horizon under consideration.

The opinion of each member of the MPC member was based on the information available at the time of the meeting. This is an assessment by MPC members of the direction of monetary policy, which, in their opinion, is needed to achieve inflation target, taking into account current conditions and future prospects at the time of decision-making.

The proposed trajectory of the base rate does not imply an obligation of the National Bank to keep it at such levels. In the communication of decisions, the National Bank will explain the factors and prerequisites for their adoption, including in case of deviation from the previously estimated rate trajectory.

Table 1. MPC members' estimates of the base rate

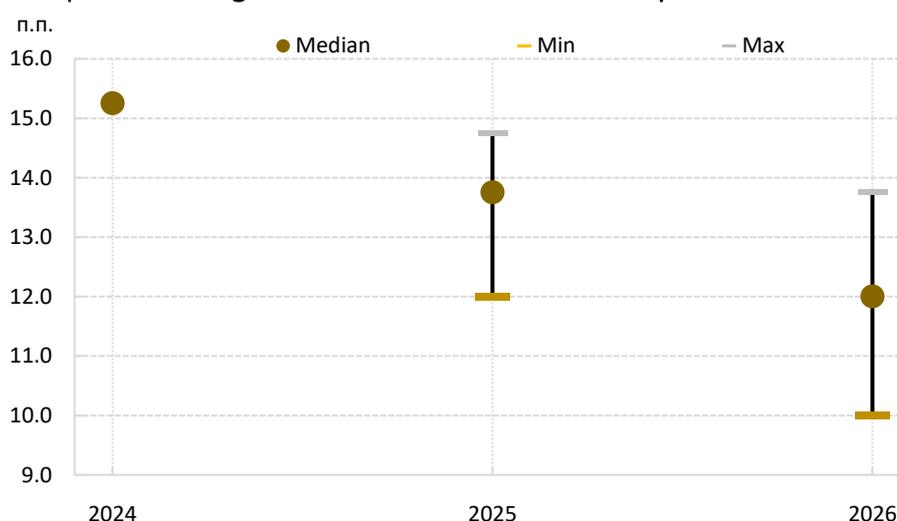
	Median			Range		
	2024	2025	2026	2024	2025	2026
Base rate, at the end of the year, %	15.25* (14.25)	13.75 (11.9)	12 (10)	15.25* (13.5-14.5)	12-14.75 (9.5-13)	10-13.75 (8.5-12)

*The last decision in 2024

Notes:

1. If the MPC member presented an assessment interval, the average value of this interval was taken as the point of the series to determine the median.
2. The range of the indicator includes the estimates of all MPC members from the minimum to the maximum for each year (including the boundaries of the interval, if the estimate is presented as an interval and not a point).

Graph 1. The range of estimates of the base rate by the MPC members



Source: MPC member's estimates

1.2. Key external assumptions

1.2.1. Commodity markets

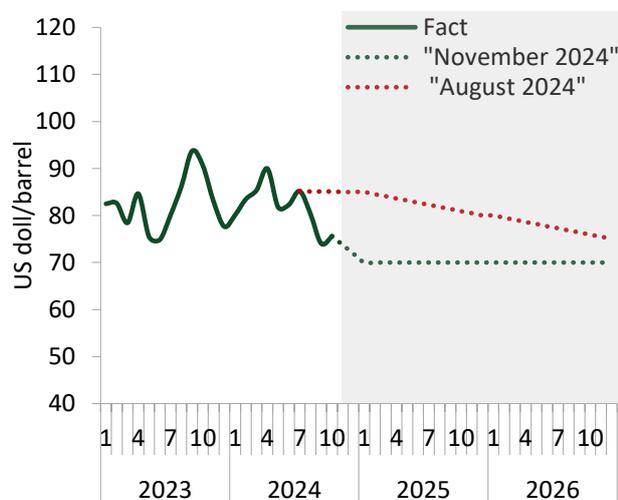
Since the publication of the previous Monetary Policy Report «August 2024», world oil prices have shown a downward trend, reflecting weaker global economic development and concerns about

surplus of supply in the global oil market.

Given the continuing imbalance in the global oil market, oil prices are expected to decrease to \$70 per barrel in the medium term under the baseline scenario of the November 2024 forecasting round.

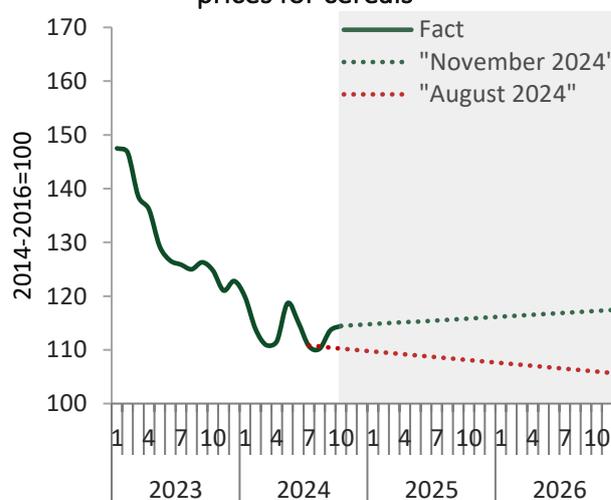
The dynamics of world oil prices was characterized by high volatility in the second half of this year. The increase in oil prices in October 2024 was facilitated by the extension of the OPEC+ agreement on voluntary reduction of oil production in the amount of 2.2 million barrels per day until December 2024. Fears of an escalation of the military conflict in the Middle East also put upward pressure on prices. At the same time, against the background of declining demand from China, the largest consumer of oil, as well as an increase in oil supply against the background of stable production volumes in non-OPEC countries, by the end of October there was a sharp decline in oil prices. The current dynamics of oil prices, coupled with a revision of expectations for supply and demand in the global oil market in the medium term, led to a decrease in the scenario dynamics of oil prices within the framework of the forecast round «November 2024». Thus, under the baseline scenario, it is expected that in 2024 oil prices will stabilize at about \$80.3 per barrel on average per year. In 2025-2026, the price of oil will be \$70 per barrel. Weaker demand from China and OECD countries is expected, as well as lower global economic growth in 2025 than previously forecast. The easing of restrictions on oil production by OPEC+ countries from the beginning of 2025 and an increase in production in the countries of the North and South Americas will contribute to a supply surplus in the oil market (Graph 2).

Graph 2. Baseline scenario for Brent crude oil price revised downwards



Source: EIA, Consensus Ecs., NBRK calculations

Graph 3. An increase in demand from the supply of cereals leads to a further increase in world prices for cereals



Source: UN FAO, Consensus Ecs., NBRK calculations

Unfavorable weather conditions, logistical difficulties and high demand affected the growth of world grain prices in September-October 2024. In the medium term, it is expected that grain prices will continue to rise as a result of a shortage of supply amid deteriorating harvest expectations.

The increase in world prices in September-October of this year covered almost all major food categories, including cereals. Grain prices increased by 3.9% during this period, but in October this year prices remained below the level of the same period last year (in October 2024, a decrease of 8.3% yoy). The main drivers of the price increase were adverse weather conditions that impede the sowing of winter crops in key exporting countries (EU, Russia, USA), as well as a reduction in the volume of corn harvest. According to the forecast estimates, the current growth trajectory will continue until the end of the forecast horizon. The expected dynamics of world grain prices is due to an increased imbalance between supply and demand. In particular, a decrease in grain supply

due to a low corn harvest will occur against the background of growing global demand. Thus, in contrast to the prerequisites of the previous forecast round «August 2024», current expectations suggest a slight increase in pro-inflationary pressure on domestic prices in Kazakhstan from the global food market (Graph 3).

1.2.2. Global Economic Development and Trade Partner Countries

Overall, the global economy continues to evolve in line with the expectations of the previous "August 2024" forecast round.

Global industrial activity remains subdued, with new orders declining for the fourth consecutive month. Meanwhile, business activity in the services sector has reached average levels observed during 2015-2019 and showed slight acceleration in October 2024.

Across countries, economic activity has been mixed. European countries, under pressure from the energy crisis and high interest rates, demonstrated weak growth rates. Similarly, China's economy faced challenges due to subdued consumer demand and problems in the real estate market. In contrast, steady growth in the U.S. economy, driven by robust personal consumer spending and export growth, provided support to the global economy.

Russia's economy, supported by strong consumer activity, continues to grow above its potential. However, growth in the second quarter of the current year was below expectations due to declining exports and lower oil prices.

The prospects for global economic growth remain stable but moderate.

It is expected that the global economy will grow by 3.2% year-on-year in 2024-2025¹. Compared to the previous forecast round, a more subdued growth outlook is anticipated for the EU, driven by weaker private consumption and investment, as well as for Russia, following weaker-than-expected results in the second quarter of 2024. The forecast for China remains largely unchanged: growth is projected to slow to 4.1% by 2026, influenced by structural economic challenges and declining private consumption. As a result, amid slower growth in the economies of trade partner countries, demand for exported goods may weaken slightly in 2025-2026 (Graph 4).

Global disinflation continued in September-October 2024.

In several advanced economies, headline inflation is currently at or below target levels. The global decline in inflationary pressures is driven by a gradual cooling in labor market conditions and lower energy prices. At the same time, service price growth remains elevated in many countries worldwide. In emerging markets, prices are increasing uniformly across all components.

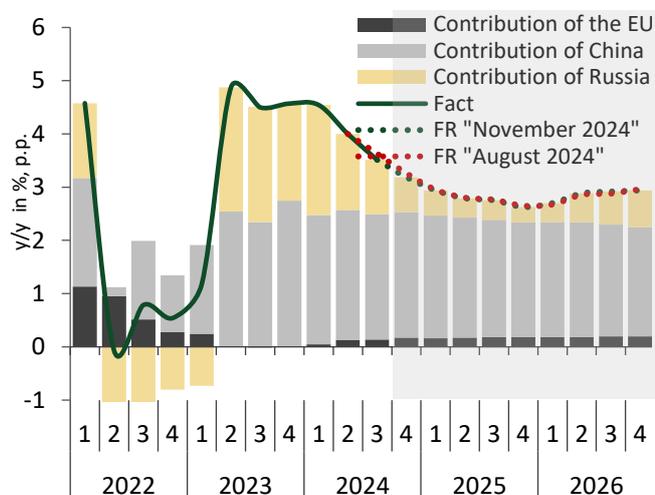
Among Kazakhstan's trade partners, annual inflation showed a more pronounced slowdown in China, while consumer price growth in the EU aligned with the expectations of the previous forecast round. Meanwhile, in Russia, inflation accelerated, significantly exceeding expectations.

According to updated forecasts, inflation in Russia has been revised upward, driven by higher current inflationary pressures, planned increases in government spending, utility tariffs, and labor market tightness. In contrast, annual inflation in the EU and China is expected to remain close to target levels throughout the forecast horizon.

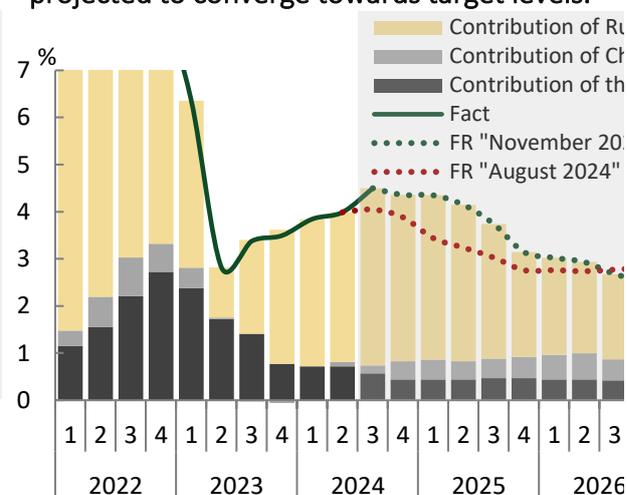
As a result, disinflationary pressures from China and the EU are expected to influence domestic prices in Kazakhstan, while higher inflation in Russia will amplify external inflationary pressure (Graph 5).

¹ IMF "World Economic Outlook", October 2024

Graph 4. Aggregated External GDP* – Demand for exported goods is expected to decline in 2024-2025 and stabilize by 2026



Graph 5. Aggregated External Inflation** – External inflationary pressure is expected to rise in the short term. Over the medium term, inflation in the trading partner countries is projected to converge towards target levels.



*Represents growth rates of trading partner economies weighted by their share in exports

** Represents annual inflation rates in trading partner countries weighted by their share in imports

Source: Eurostat, National Bureau of Statistics of China, Rosstat, Consensus Economics, Bank of Russia, estimates by NBK

Amid declining inflationary pressures and easing labor market strain, major central banks worldwide continued to gradually lower key interest rates.

In September-October 2024, rate cuts were observed in advanced economies, including the United States, the European Union, Canada, and Denmark. The Federal Reserve's rhetoric remains relatively dovish, while the European Central Bank (ECB), due to persistently high service inflation, maintains a more cautious approach. Meanwhile, the Bank of Russia's signal remains highly hawkish, driven by robust consumer demand and elevated inflation expectations.

Most central banks are expected to continue moving toward the gradual normalization of monetary policy, which will sustain favorable external monetary conditions. According to projections, the Federal Reserve and ECB will persist with their policy easing trajectory, albeit at a potentially slower pace. In contrast, the Bank of Russia's key interest rate is anticipated to remain elevated over the long term due to high inflationary risks.

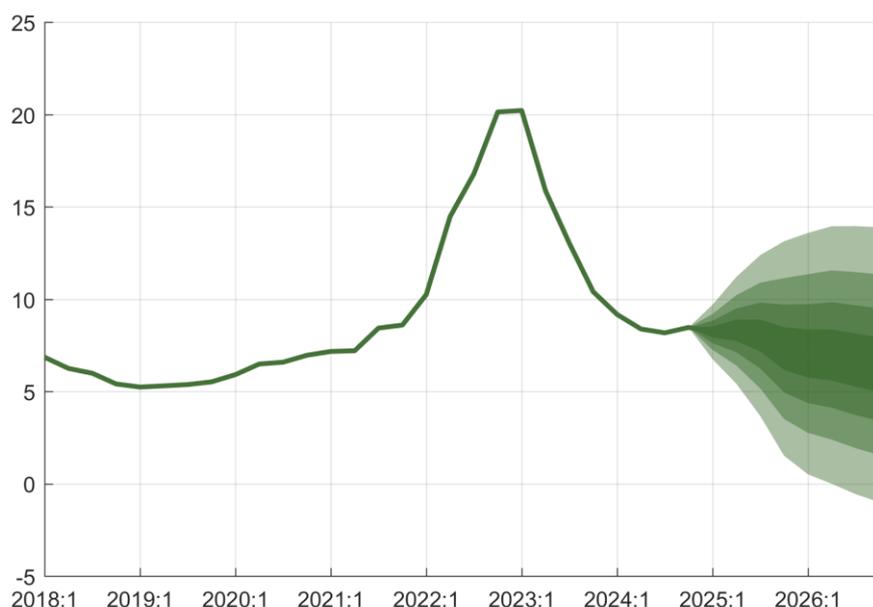
1.3. Outlook for Economic Development under the Baseline Scenario

The current inflation dynamics are developing in line with the National Bank's forecasts, but there are signs of deviation from the trajectory of sustainable inflation reduction towards the 5% target. Inflationary pressure within the economy persists due to increasing volumes of fiscal stimulus, ongoing tariff growth under the housing and utilities reform, external inflationary pressure, and elevated inflation expectations.

Given the persistence of strong domestic inflationary factors and the intensification of external forecast assumptions, inflation expectations for 2025–2026 have been revised slightly upward. However, due to the implementation of a moderately tight monetary policy, core inflation (q/q, SA), adjusted for temporary factors, is expected to slow to 5% by the end of 2026, paving the way for annual inflation to converge to its target in 2027.

Thus, inflation is projected to be 8–9% in 2024, 6.5–8.5% in 2025, 5.5–7.5% in 2026, near 5% in 2027 (Graph 6, Table 2).

Graph 6. Amid strengthening pro-inflationary factors, the inflation forecast (y/y, %) has been revised upward



Source: NBRK forecasts

The inflation forecast for 2024 is expected to be in the range of 8-9%. By the end of 2024, inflation rates are anticipated to decelerate slightly, thanks to more restrained growth in utility tariffs in November and December. However, their contribution to inflation will exceed the level of 2023.

In the first half of 2025, the risks of accelerating inflation remain significant due to the potential increase in prices in global food markets and increased inflation in Russia, the main trading partner. The increase in production costs caused by the rise in the cost of manufactured goods and imported goods will increase price pressure on non-food products. In addition, the Tariff in Exchange for Investment program, provided that the current rate of increase in utility tariffs is maintained, will remain the key driver of accelerating inflation in the services sector.

Given the dependence of inflation expectations on short-term shocks and actual inflation, inflation expectations are expected to remain elevated and continue to exert additional pro-inflationary pressure.

Inflation dynamics in 2025–2026 will continue to slow, but at a slower pace than previously projected. This will be influenced by stronger external inflationary pressures and worsening external food inflation. Additionally, the slowdown in inflation will be hindered by the growth of regulated utility tariffs and a positive fiscal impulse.

In the medium term, the stabilization of inflation expectations due to the NBK's moderately tight policy, along with the gradual return of inflation in Kazakhstan's trading partner countries to their target levels, will contribute to reducing inflation.

It is important to note that risks and uncertainties surrounding fiscal parameters for 2026 persist due to the implementation of tax reform. In the context of a sustained inflationary output gap and low labor productivity, this will exacerbate inflationary pressures and slow the pace of inflation's return to its target.

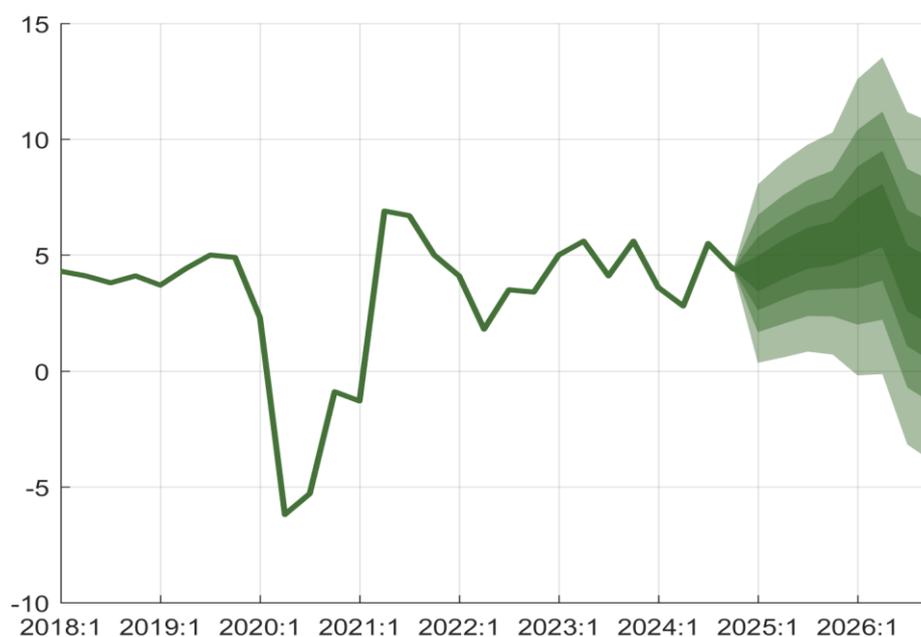
However, excluding the impact of temporary factors such as reforms aimed at raising utility tariffs, seasonally adjusted quarterly core inflation is expected to align with the NBK's medium-term target by the end of 2026.

The growth of economic activity, after significant deceleration in the first half of the year (3.2% growth for the first 6 months of 2024), accelerated by the third quarter, resulting in GDP growth

of 4.1% for the first 9 months. The main reason for weak activity in the second quarter of 2024 was a slight slowdown in household consumption, as well as a negative trend in gross capital formation and a decline in government consumption. Despite this, household demand remains the main driver of economic growth and continues to contribute to inflationary pressures in the economy. It is expected that GDP growth by the end of the year will maintain its current pace, supported by domestic demand, and will be in the range of 4-4.5%.

Expectations for GDP growth for 2025-2026 have been revised compared to the previous forecast. Economic activity growth is expected to be in the range of 4.5-5.5% in 2025, 4.6-5.6% in 2026 (Graph 7, Table 2).

Graph 7. More moderate GDP growth is expected in 2025-2026 compared to previous forecasts (YoY, %)



Source: NBRK forecasts

In the second quarter of 2024, the dynamics of household consumption fell below the expectations of the NBK due to a slowdown in wage growth and a decline in the growth rate of consumer lending volumes. The current consumption dynamics, as well as a more restrained growth in consumer lending than previously expected, led to a slight downward revision of household demand growth. At the same time, the anticipated significant increase in transfers from the National Fund in the second half of the year, due to the low pace of tax collection, is expected to stimulate economic activity, with household consumption continuing to make the largest contribution to GDP growth. Additionally, against the backdrop of increased fiscal stimulus, gross capital formation and government consumption volumes are expected to return to growth after contracting in the first half of 2024.

A slight slowdown in export growth is projected due to a reduction in oil production in the fourth quarter of 2024. Thus, the gradual acceleration of domestic demand will be partially offset by the deteriorating dynamics of the oil sector. As a result, the forecast for the current year has been narrowed to 4-4.5%.

The GDP growth forecast for 2025-2026 has been revised downward due to the projected decline in oil prices and a downward revision of the short-term domestic demand dynamics, caused by a slight slowdown in growth of consumer lending. Nevertheless, despite this revision, domestic

demand is expected to grow above its potential level throughout the forecast horizon, driven by ongoing fiscal stimulus, while maintaining its inflationary nature.

In the second half of 2025, as before, GDP growth is expected to accelerate due to an increase in oil production and, consequently, exports, following the commissioning of new capacities at the Tengiz oil field. Annual growth in oil production in Kazakhstan is projected throughout the forecast period. Meanwhile, non-oil exports are expected to show a slightly positive trend due to moderate growth in external demand and a strong real exchange rate.

In the medium term, as fiscal consolidation is planned and oil production growth stabilizes, the influence of these factors will weaken, and annual economic growth will slow from the second half of 2026.

The output gap, defined as the percentage deviation of actual GDP from its potential level, will remain positive during 2024-2025, gradually closing by the end of 2026. This is due to the positive dynamics of domestic demand, supported by fiscal stimulus and consumer lending, as well as exports in 2025-2026 driven by increased oil production. At the same time, as fiscal stimulus is exhausted by 2026, the economy will move closer to its potential levels. Thus, for most of the forecast period, the economy will grow under conditions of demand expansion exceeding supply capabilities, which will exert inflationary pressure.

Table 2. Forecasts under the baseline scenario

	2024	2025	2026
GDP, yoy, %	4-4,5 (3,5-4,5)	4,5-5,5 (5-6)	4,6-5,6 (4,9-5,9)
CPI, Dec.to Dec. Previous year, %	8-9 (7,5-9,5)	6,5-8,5 (5,5-7,5)	5,5-7,5 (5-7)
Brent, USD/Barrel, average per year	(80,3) (84,5)	(70) (82,5)	(70) (77,5)

Source: NBRK forecasts

Table 2 (a). Forecasts under the pessimistic scenario

	2024	2025	2026
GDP, yoy, %	4-4,5 (3,2-4,2)	3,7-4,7 (4,4-5,4)	4,5-5,5 (4,9-5,9)
CPI, Dec.to Dec. Previous year, %	8-9 (8-10)	6,7-8,7 (6,5-8,5)	6-8 (6-8)
Brent, USD/Barrel, average per year	78,6 (78)	50 (60)	50 (60)

Source: NBRK forecasts

Table 2 (b). Forecasts under the optimistic scenario

	2024	2025	2026
GDP, yoy, %	4-4,5 (4,2-5,2)	5,1-6,1 (6-7)	4,7-5,7 (4,9-5,9)
CPI, Dec.to Dec. Previous year, %	8-9 (7-9)	6-8 (5-7)	5-7 (5-6)
Brent, USD/Barrel, average per year	82 (88)	90 (100)	90 (100)

Source: NBRK forecasts

1.4. Medium-term Risks

The balance of risks is tilted towards inflationary pressures, which suggests maintaining moderately tight monetary conditions (Graph 8).

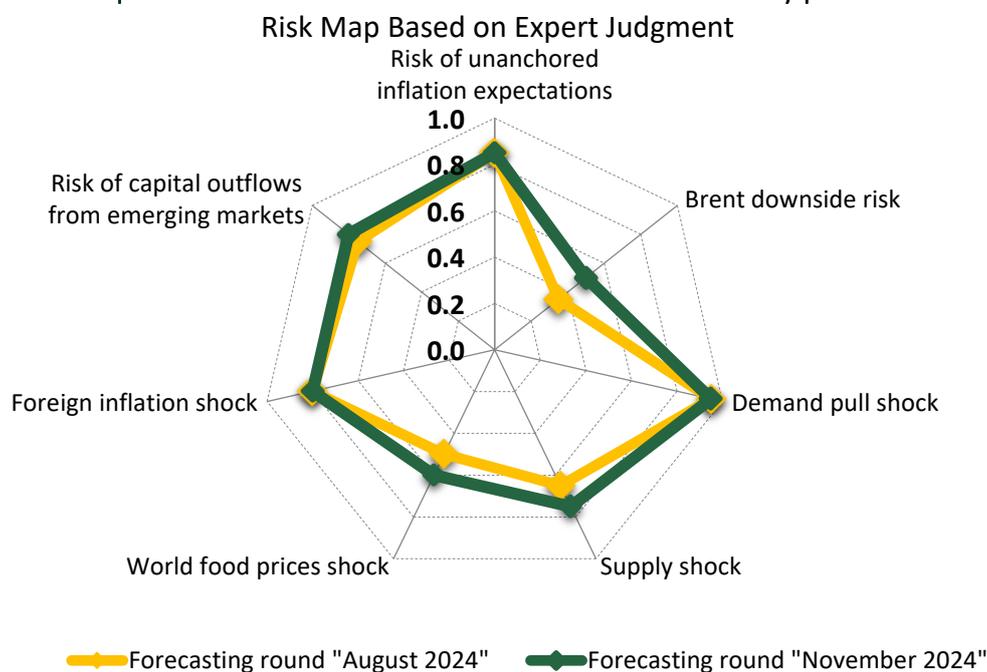
Compared to the previous forecast round, the risks of accelerating inflation have increased. On the side of external risks, the risk of importing higher food prices has risen due to the current heightened dynamics of price growth and excess demand. The risk of importing higher external inflation in the short term remains, particularly from Russia, amid high monthly inflation fueled by domestic demand that exceeds the supply of goods and services.

The risk of capital outflows from emerging markets to developed has somewhat increased, as well as the risk of a significant drop in oil prices amid political power shifts in the U.S. In addition, geopolitical instability and protectionist policies worldwide continue to heighten the risk of sanctions against Kazakhstan's trading partners.

Given the current shortfall in tax revenues and the implementation of large-scale government programs, the risks of fiscal stimulus remain. Going forward, if the current trend continues, the planned budget consolidation may not materialize, which increases the risk of sustained excess domestic demand over the capacity of domestic supply.

The high risks of inflation expectations remaining unanchored prevail, given their elevated levels and vulnerability to shocks in certain goods and services (e.g. food, fuel, and housing and utilities). The risks from supply shocks and their secondary effects (including on the core inflation and inflation expectations) have slightly increased, amid the gradual deregulation of prices by the government. As for GDP, the risks to its forecast are related to uncertainties regarding oil prices, oil production levels, including compliance with OPEC+ restrictions, and the parameters of future fiscal and budgetary policies.

Graph 8. The balance of risks is tilted towards inflationary pressures



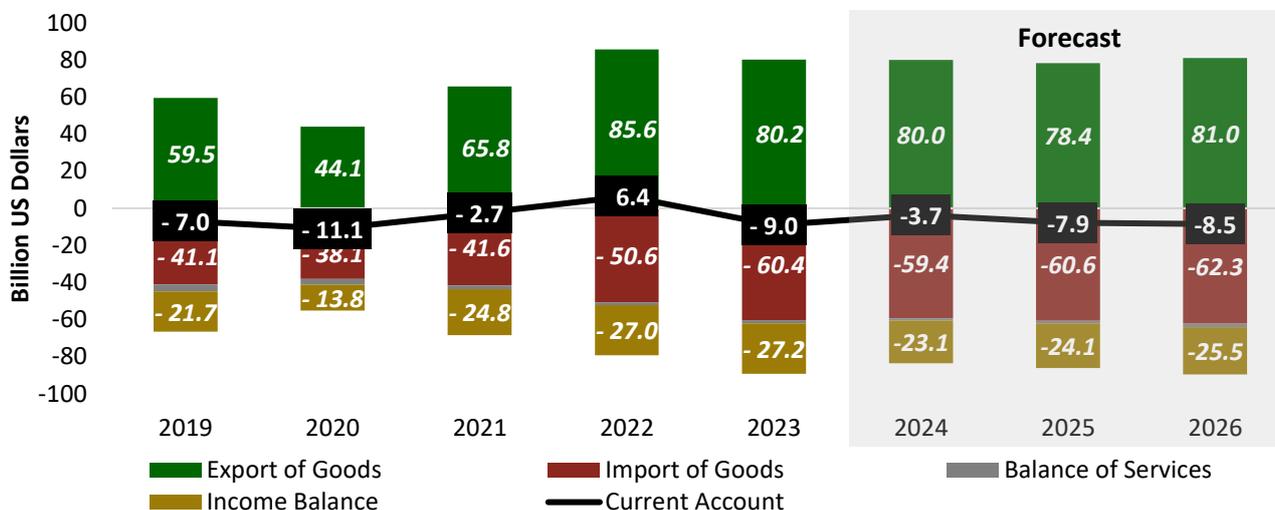
Source: NBRK forecasts

1.5. Forecast of the current account of the balance of payments

According to the baseline scenario, the current account of the balance of payments will remain in a moderate deficit zone in the medium term. The projected deficit levels will be driven by the scenario assumed decline in oil prices and consistently high domestic consumption of imported goods.

Expectations on the current account have worsened compared to the previous forecast round due to a downward revision of the projected oil price dynamics (Graph 9). Thus, the current account deficit in 2024-2026 is estimated to be in a range between (-)3.7 billion US dollars and (-)8.5 billion US dollars, or (-)1.3% to (-)2.7% of GDP (previous forecast – between (-)2.8 billion US dollars and (-)4.6 billion US dollars, or (-)1% to (-)1.4% of GDP).

Graph 9. Steady import demand will constrain the transition of the current account to a surplus zone



Source: NBK forecast

Export of goods is expected to grow moderately over the forecast horizon due to the influence of countervailing factors. Increased production at Tengiz oilfield will contribute to higher volumes of oil exports. However, the projected decline in oil prices will offset this effect. At the same time, non-oil exports will be supported by high global prices for uranium and non-ferrous metals, driven by global decarbonization trends. Nevertheless, the growth of non-oil exports will be constrained by measures to redirect part of the raw materials and certain types of energy resources, such as gas and petroleum products, to the domestic market. As a result, in the medium term, the volume of exports is expected to grow from 80.2 billion US dollars in 2023 to 81 billion US dollars in 2026.

Domestic demand for imported products will continue to grow. High import levels will be driven by insufficient volumes of locally produced goods to cover the growing consumption of households and businesses, the dependence of local production on intermediate and investment goods produced abroad, as well as the implementation of government programs for industrial and infrastructure development. Demand for imports will be financed by fiscal expenditures along with personal and borrowed funds of households and businesses. Consequently, imports of goods will grow from 60.4 billion US dollars in 2023 to 62.3 billion US dollars by the end of 2026.

The income balance deficit will continue to be influenced by commodity exports. The growth in oil production and metal prices will cause high levels of income payable to foreign direct investors. Interest payments are expected to gradually decrease due to the anticipated easing of global monetary conditions. As a result, the income balance deficit is projected to reach (-)25.5 billion US dollars by 2026.

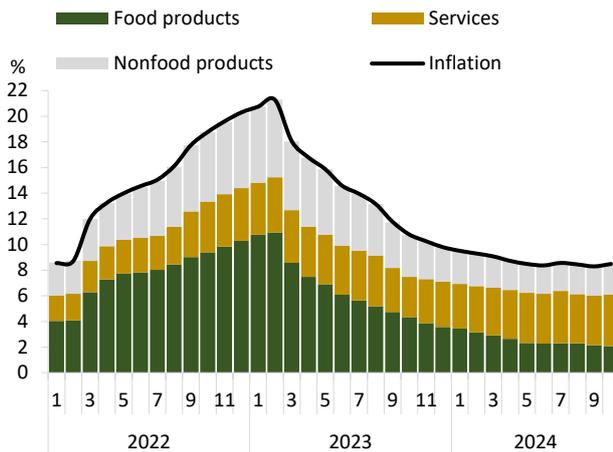
Higher volumes of import of services compared to their exports will contribute to a moderate deepening of the balance of services deficit in the forecast period. The main driver of the import of services will be the growth of travelling abroad due to the opening of new international air routes from Kazakhstan and the introduction of a visa-free regime with certain countries. The export of services will be supported by the growth of transportation services through Kazakhstan and the inflow of foreign citizens, mainly from neighboring countries. As a result, the balance of services deficit will deepen to (-)1.8 billion US dollars by 2026.

II. CURRENT MACROECONOMIC CONDITIONS

2.1. Inflation

In October 2024, annual inflation accelerated, in line with the National Bank's projections. The primary driver of inflationary pressures was the escalation in prices for non-food goods and services. At the same time, the deceleration in food price growth exerted a restraining influence on the overall inflation dynamics.

Graph 10. Annual inflation accelerates after prolonged slowdown .



Source: BNS ASPR, NBRK calculations

After a prolonged period of moderation, with annual inflation reaching 8.3% in September 2024, it accelerated to 8.5% in October 2024 (see Graph 10). This uptick aligns with the National Bank's projections and was driven by a combination of domestic and external factors that have created a complex inflationary environment in the economy.

The primary inflationary pressure stemmed from rising prices for non-food goods and services, with their dynamics aligning with expectations. Meanwhile, the food component continued to decelerate, providing the main disinflationary contribution.

The primary driver of inflation acceleration remains the paid services sector, where annual

growth reached 14.3% (up from 13.6% in September 2024). A significant contribution to overall inflation came from increased tariffs on regulated utilities under the "Tariff in Exchange for Investments" program. Since the beginning of the year, this initiative has led to an 18.1% rise in tariffs, corresponding to an accumulated inflationary impact of 0.92 percentage points. Additionally, sustained consumer demand in the third quarter, combined with the depreciation of the tenge, further accelerated inflation in market-based services.

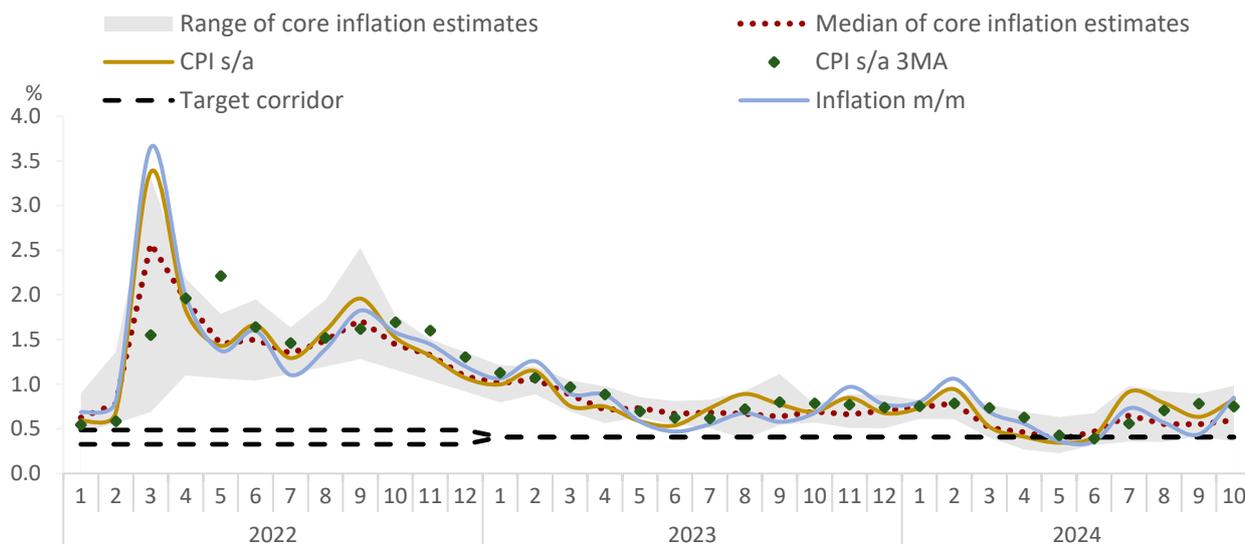
Prices of non-food goods increased by 7.8% year-on-year (compared to 7.6% in September 2024). Despite a slowdown from December 2023 (9.1%), this reflects the presence of significant inflationary pressures from both demand and production sides. Amid the weakening nominal exchange rate of the tenge, the cost of imported finished consumer and intermediate goods has increased, which in turn raises production costs. Despite the rise in consumer prices from the production side, steady consumer demand continues to support the consumption of goods at higher prices.

Food inflation continues to exert a restraining influence on the overall consumer price index. Annual food price growth slowed to 4.9% (down from 5.1% in September 2024), driven by moderate price increases across most food categories. The sharper-than-expected deceleration in food inflation was attributed to a more pronounced decline in agricultural producer prices and disinflation in food manufacturing prices in October 2024.

A strong harvest and the slowdown in livestock product price growth significantly contributed to lower agricultural prices, which, in turn, positively impacted food production costs in the processing industry.

In October 2024, seasonally adjusted and core inflation accelerated, reflecting a persistent price increase across a broad range of goods and services. Furthermore, the widening range of core inflation estimates indicates instability in the inflationary dynamics.

Graph 11. Various monthly inflation measures have accelerated

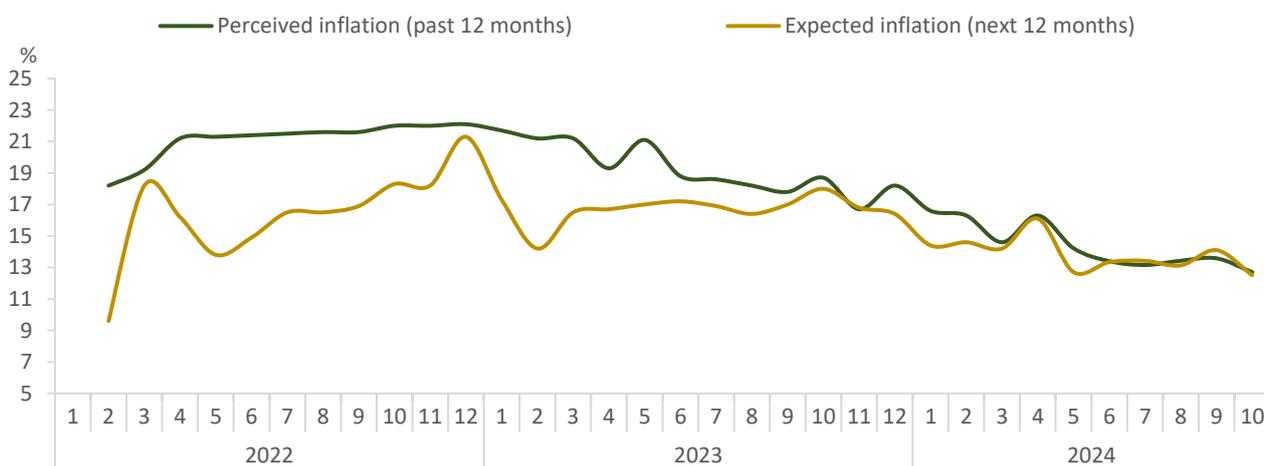


Source: BNS ASPR, NBRK calculations

In October 2024, seasonally adjusted inflation accelerated to 0.83% in monthly terms (0.63% in September 2024), which corresponds to an annualized growth of 10.4% (Graph 11). The structure of core inflation shows a steady increase in prices for a wide range of goods and services, which indicates the instability of inflation processes and emphasizes fundamental pro-inflationary trends. The acceleration of core inflation reflects not only the influence of the exchange rate factor, but also a steady increase in production costs and consumer demand.

Inflation expectations in October 2024 declined, but remain elevated and susceptible to short-term shocks.

Graph 12. Inflation expectations remain elevated and unanchored



Source: FusionLab: population survey

In October 2024, the population's inflation expectations for the year ahead decreased to 12.5% (14.1% in September 2024) (Graph 12). The growth in inflation expectations observed in recent months after a gradient decline, following the slowdown in actual inflation, is explained by the impact of the depreciation of the nominal exchange rate of the tenge in mid-2024. This fact confirms that at the moment, inflation expectations remain backward-looking and depend on the dynamics of actual inflation, as well as the impact of short-term factors. Despite the slowdown in inflation expectations, they still remain above the target inflation level. It should be noted that the interquartile range of expected inflation in 2024 has narrowed on average compared to last year,

which indicates a reduction in the dispersion of respondents' opinions. However, a significant portion of respondents continue to expect prices to rise above the target level in both the short and long term.

2.2. Domestic sector

The development of Kazakhstan's domestic economy generally aligned with the expectations of the National Bank presented in the Monetary Policy Report in August of this year. A slight slowdown in economic growth in the second quarter of 2024 was due to a reduction in oil production and weakening demand following extensive spring floods.

In the third quarter of this year, an acceleration in economic growth was observed amidst increasing business activity across all major sectors of the economy, expanding domestic demand, and growing exports.

Kazakhstan's economy slowed during the first half of 2024. Low economic growth rates in the second quarter of this year were attributed to a reduction in oil production during maintenance work at major oilfields. The extensive spring floods that affected many regions of the country also negatively impacted business activity. Beyond the oil sector, there was a slowdown in the annual growth rates of construction, transportation, and certain types of services. Net taxes on products and imports declined by 1.2% year-on-year, marking the first annual contraction since early 2021.

It is worth noting that the negative impact of the floods on economic activity was confined to the second quarter of 2024. In the third quarter of 2024, there was a significant acceleration in economic growth rates. On the supply side, growth in the production sectors was driven by high grain harvests from the latest agricultural season, recovery in the oil sector, and stable growth in manufacturing industries. Industrial production was largely supported by strong outputs in metallurgy and mechanical engineering. Thus, production in the economy is expanding, though its structure remains predominantly focused on raw materials and intermediate goods.

Activity in the services sector in the third quarter of 2024 remained stable, supported by accelerated trade growth due to expanding investment activity, consumer demand, and increased exports. Flood recovery efforts, alongside the continuation of infrastructure projects, resulted in a significant increase in construction works. At the same time, there was a decline in services provided in the mobile and telecommunication sectors, primarily due to a shift in consumer preferences toward internet services under the state program 'Accessible Internet.' With the expansion of business activity in industries and the recovery of imports, net taxes on products and imports demonstrated significant growth in the third quarter of 2024 (Graph 13).

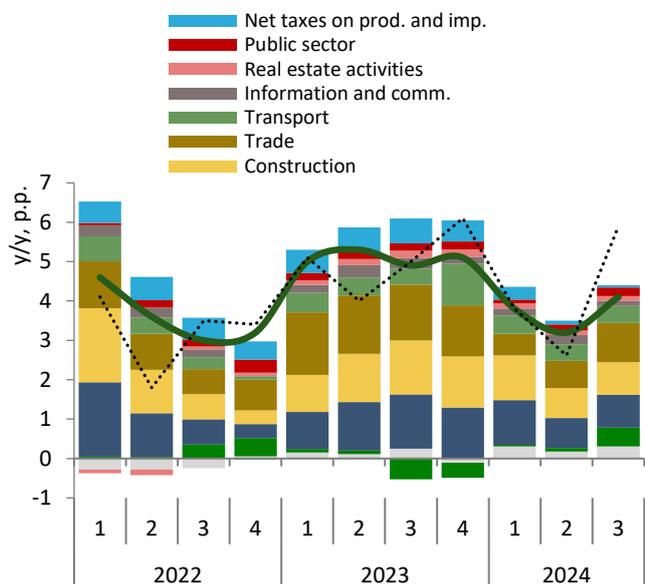
The slowdown in demand in the second quarter of this year was mainly influenced by the effects of extensive floods, a slowdown in wage growth and consumer lending, and a reduction in government consumption (Graph 14).

Annual growth in household expenditures slowed to 4.3% in Q2, compared to 7.0% in Q1 2024. In addition to slower wage growth in Q2 2024, there was a decline in real monetary incomes (Graph 15). Amid widespread and devastating spring floods, various promotional and other large-scale events were canceled, and the budgets for certain events were reduced, which contributed to a slight cooling in demand.

A reduction in government consumption also contributed negatively to demand dynamics. Real expenditures by government authorities decreased by 5.2% in the first half of 2024 compared to the same period of the previous year. Both individual and collective government service expenditures declined. According to the Ministry of Finance, the main reduction in government expenditures occurred in the category of other current expenses, including business trips, expenditures from the Compulsory Secondary Education Fund, and payments for education and scholarships.

Graph 13. Acceleration of annual economic growth in Q3 2024 occurred amid increased activity in the services sector and high agricultural yields

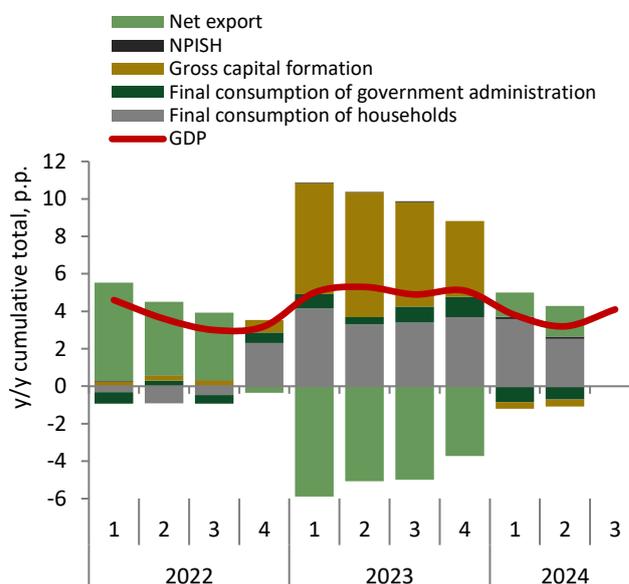
Contribution of Industries and Taxes to Real GDP Growth*



Source: NBRK calculations based on BNS ASPR RK data
*the contribution of industries to GDP is presented as a cumulative total

Graph 14. Consumer demand remains the main driver of economic growth. Recovery of net exports continued.

Contribution of Aggregate Demand Components to Real GDP Growth



Meanwhile, consumer lending and social transfers supported demand. The growth rate of lending to individuals, excluding individual entrepreneurs, increased by 8.7% year-on-year in Q2 2024 in real terms. However, it is worth noting a slight cooling in consumer lending in Q2 2024.

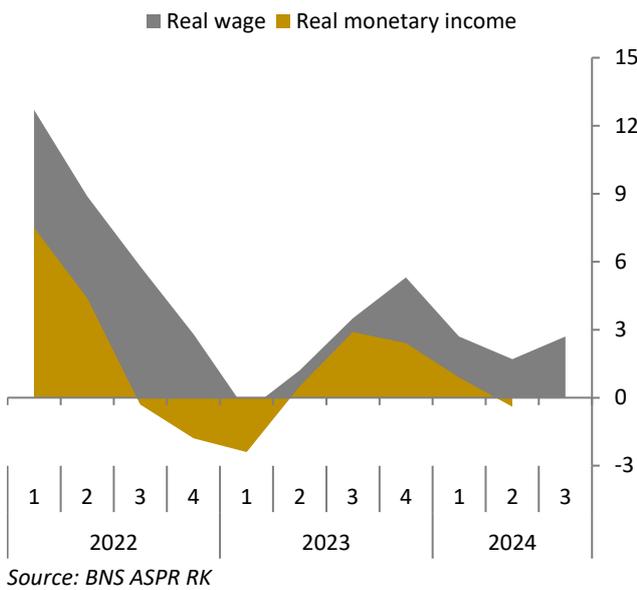
Proxies indicate an acceleration in consumer demand in Q3 2024, supported by increased budget expenditures and higher annual real wage growth rates. As estimated by the National Bank, domestic demand remains above equilibrium levels, indicating persistent inflationary pressure on prices.

The growth of personal consumption in Q3 2024 is indirectly confirmed by the increase in retail trade, primarily driven by rising demand for non-food products and positive trends in the services sector. For example, retail trade grew by 5.6% year-on-year in the first half of the year and by 7.3% year-on-year by the end of Q3 2024, compared to the same periods of the previous year. The primary driver was increased demand for non-food products, contributing 4.6 percentage points to growth. At the same time, demand for food products grew more moderately, contributing 2.7 percentage points. Additionally, the growth in food consumption and the services sector related to food and beverages continues to accelerate, consistent with the overall trend of rising consumption in Q3 2024.

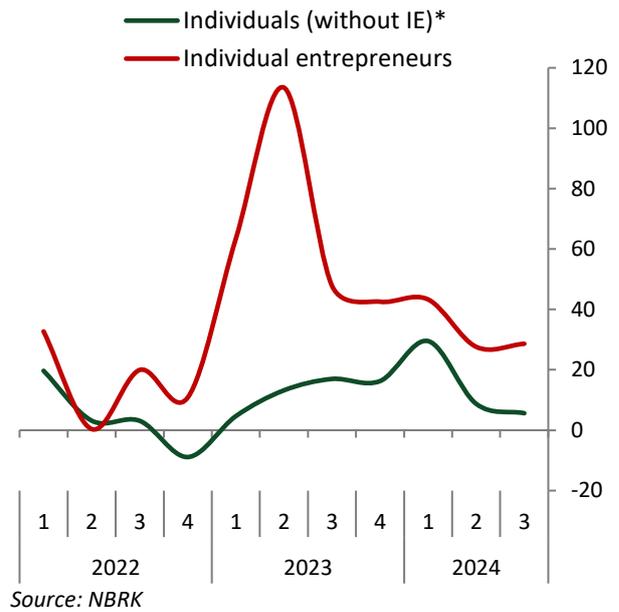
The growth in government consumption, supported by increased spending on inventories, services, and other current expenses, also contributed to demand in Q3 2024. The real growth rate of current transfers to the population was 5.2% year-on-year, boosting consumption growth. Thus, high consumer demand exceeds domestic production capacity, contributing to an increase in costly imports and generating inflationary pressure.

At the same time, adjusted for inflation, lending to individuals slowed significantly, reaching 5.6% year-on-year in Q3 2024, substantially below the growth rate for the same period in 2023. High lending activity remains in lending to individual entrepreneurs, supporting investment demand in the economy (Graph 16).

Graph 15. Wage growth accelerated in Q3 2024.



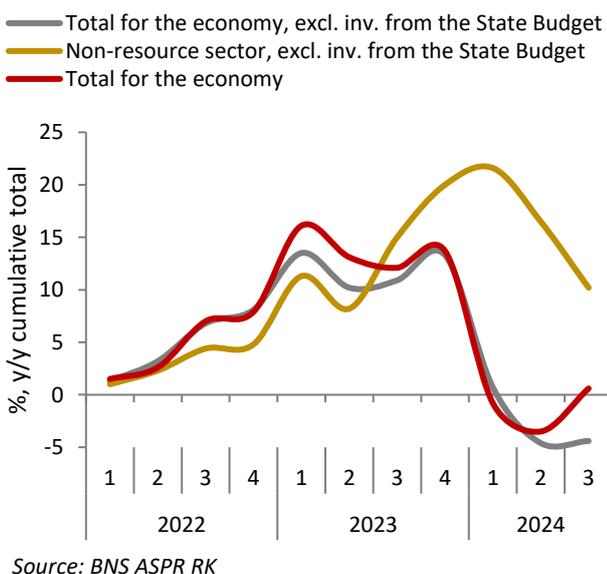
Graph 16. Real lending growth rates decelerate.



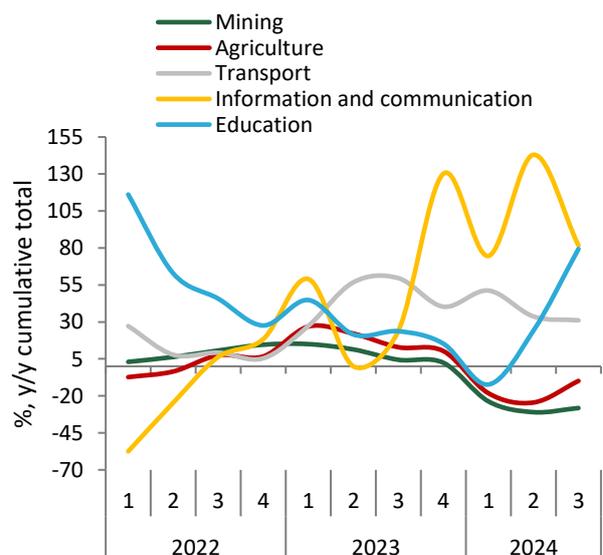
Investment activity in the economy continued to recover. Positive contributions to investment growth were primarily in the non-resource sector of the economy, while investments in the resource sector continued to decline.

Since the beginning of the year, investments in fixed assets have increased by 1.9% year-on-year, maintaining a recovery trajectory. The main driver of growth was investments in the non-resource sector, excluding state budget investments, which grew by 10.2% year-on-year during January–September 2024 (Graph 17). Growth in fixed asset investments is being driven by funds from the state budget, whose share is steadily increasing in the structure of fixed asset investment financing. Conversely, the share of private investments in fixed assets is gradually decreasing.

Graph 17. Investment activity showed signs of recovery in Q3 2024.



Graph 18. Investments in the services sector are growing at a rapid pace. The reduction in investments in the resource sector continued.



The structure of investments across economic sectors demonstrates significant variations. By sector, the highest investment growth rates were observed in education, driven by the implementation of the state program 'Comfortable School,' as well as in transportation, storage, information, and

communications. Meanwhile, investments in the resource sector (mining and agriculture) continued to decline. High investment activity in the transportation sector was driven by projects outlined in the National Infrastructure Plan through 2029². In the communications sector, projects include the installation of high-speed internet in various regions, modernization of existing and construction of new base communication stations (Graph 18).

Inflationary risks stemming from the labor market remain low as productivity growth exceeds the growth in real wages.

The expansion of economic activity is accompanied by increased employment, which accelerated to 1.4% year-on-year in Q3 2024 (compared to 0.8% year-on-year in Q2). Companies continue to expand their workforce, as evidenced by a higher growth rate in the number of hired workers compared to self-employed individuals.

The largest growth in employment was observed in the service sectors, including accommodation and food services, entertainment and recreation, and real estate activities. However, employment continued to decline in agriculture, public administration, and healthcare.

2.3. Fiscal policy

Non-oil deficit continues to develop at high levels.

In the first half of 2024, budget expenditures grew at a moderate pace, which to some extent influenced the approach of demand to equilibrium levels. In the third quarter of this year, the growth of budget expenditures accelerated, exerting a stimulating effect on the expansion of demand in the economy (see Graph 19). The main contribution came from spending on education, social welfare, utilities, and transportation.

In the expenditure structure, capital expenditures increased significantly in addition to current expenditures. However, their share in total expenditures remains small (on average, 14.2% from 2019 to 2023).

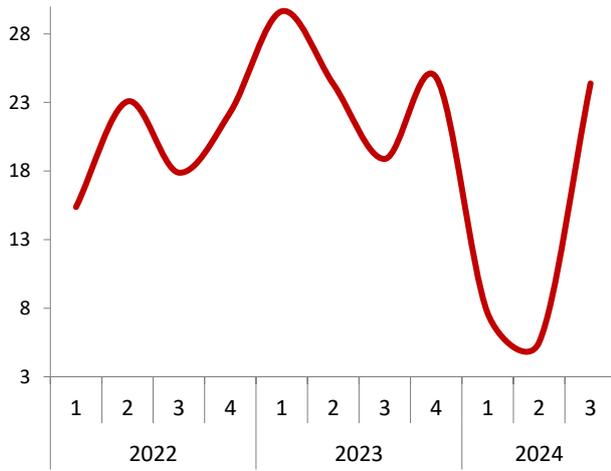
The revenue part of the budget is increasing at a moderate pace this year. Transfers and non-tax revenues make a significant contribution to the revenue structure. In terms of tax revenues, there has been weak growth in January-September 2024 compared to the same period last year, leading to a shortfall in tax collection of 2.6 trillion tenge. Significant shortfalls are observed in CIT from large enterprises and VAT.

For the first 9 months of 2024, the state budget deficit amounted to 2.4% of GDP, which is almost the same as the level in 2023. The non-oil deficit worsened to 8.9% of GDP amid higher level of transfers from the National Fund, contributing to the increase in the share of oil revenues (see Graph 20).

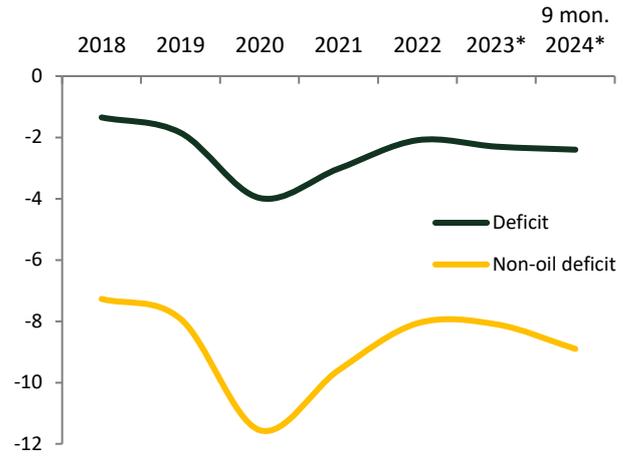
Given the high level of inflation, the constant high withdrawals from the National Fund significantly limit the effectiveness of the monetary policy being implemented.

² The Plan covers almost all regions of Kazakhstan and includes repair of existing and construction of new railway lines, construction of bridges, installation of culverts, repair and construction of motorways, modernization of the Kuryk seaport, construction of additional passenger and cargo handling terminals. Among the major projects within the framework of the Plan, it is worth noting the construction of a second railway line (836 km) on the Dostyk-Moiynty section, a bypass line of the Almaty station and the Darbaza-Maktaaral railway line.

Graph 19. Government expenditures, in %, yoy



Graph 20. State budget deficit, as % of GDP



**the purchase of shares of JSC NC «KazMunayGas» in 2023 and JSC NAC «Kazatomprom» in 2024 by the National Fund received in the form of dividends to the republican budget, which is recorded in the article "Non-tax revenues", for analytical purposes, this amount, by analogy with transfers from the National Fund, was excluded when calculating the non-oil deficit.*

Source: MF RK, BNS ASPR RK, NBRK calculations

III. THE TRANSMISSION MECHANISM OF MONETARY POLICY

3.1. The transmission mechanism of monetary policy

Against the backdrop of changes introduced to the NBRK's instrument system in October 2024, money market rates are formed within the boundaries of the base rate corridor. The rates on deposits of the population showed a downward trend, while rates on deposits of legal entities remained unchanged. Corporate loan rates exhibited varied trends depending on business sectors. Loan rates for the population continue to be primarily influenced by the dynamics of consumer lending rates and, to a lesser extent, by mortgage lending rates. Lending volumes to enterprises and the population continue to grow at a high pace. Amid the weakening of the tenge, pro-inflationary risks are rising.

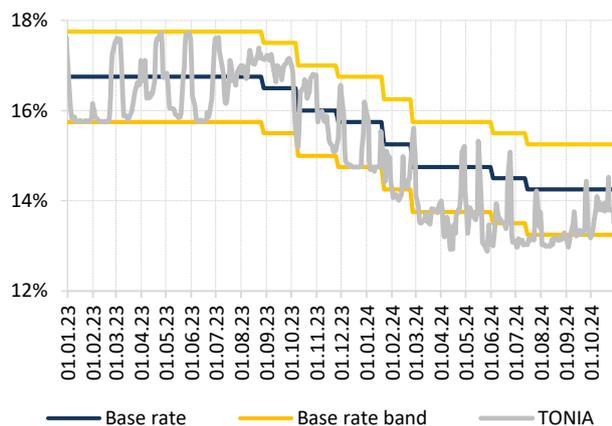
3.1.1. Interest rate channel

Money market rates began to form within the targeted corridor against the backdrop of changes in the NBRK's instrument system.

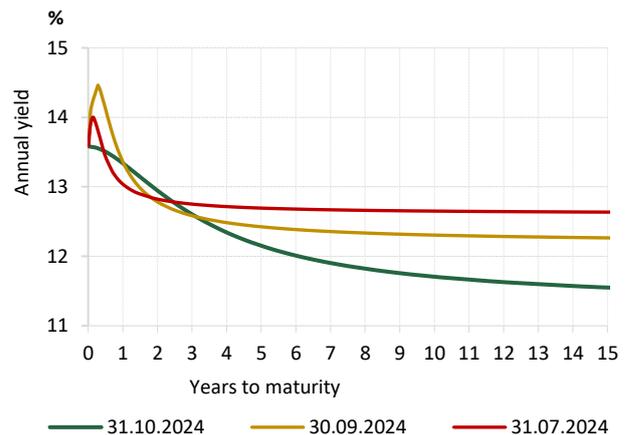
Money market rates have been forming within the base rate corridor since October of this year (Graph 21), supported in part by changes in the settlement terms for deposit auctions (transitioning from T+2 to T+0 settlements). This decision partially simplifies liquidity management and reduces banks' operating costs. For the period August-October 2024, the average spread between TONIA and the base rate was (-) 0.8 percentage points (for the period May-July 2024, the spread was (-) 1.1 p.p.).

Yields on government securities are declining in the medium- and long-term segments. In October, a decrease in GSs yields was observed. The yield curve took on an inverted shape (Graph 22). However, in certain sections of the short- and medium-term parts of the curve, rates remained above the levels observed in July, signaling high inflation expectations among market participants, as confirmed by the results of a macroeconomic survey of experts.

Graph 21. The Interest Rate Band and the TONIA



Graph 22. Risk-Free Yield Curve, %



Source: NBK, KASE

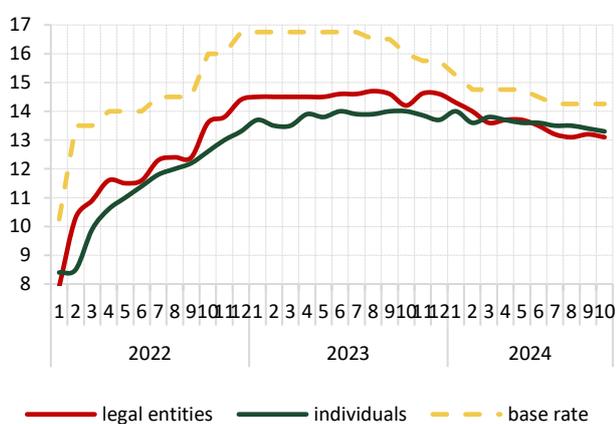
In August-October 2024, deposit rates for legal entities did not undergo significant changes, in line with the unchanged base rate. At the same time, deposit rates for individuals slightly decreased, indicating the delayed impact of the base rate (Graph 23).

In the third quarter of this year, business loan rates changed slightly. The trend of decreasing borrowing costs for large and medium-sized businesses has been ongoing since the end of last year. The absence of large-scale installment programs in the third quarter of this year led to an increase in the cost of loans for individuals.

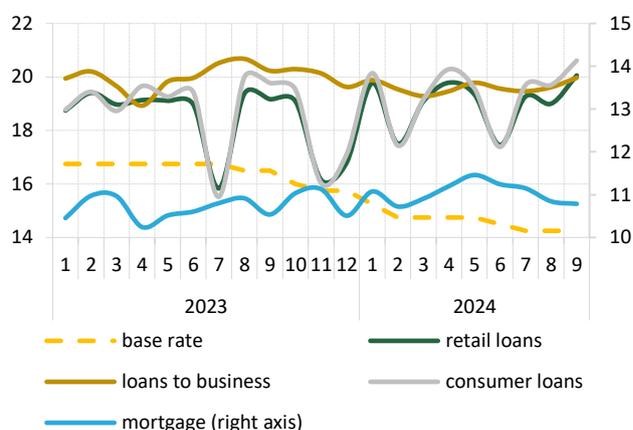
Corporate lending rates. The weighted average interest rate on business loans in tenge showed a decrease for loans to large and medium-sized businesses, and a slight increase for loans to small enterprises. **The survey of banks on lending for the third quarter of 2024** also indicates a decline in the cost of credit resources for large companies. At the same time, the rise in interest rates for loans to small businesses is likely due to the tightening of lending conditions for individual entrepreneurs by a number of large and medium-sized banks, as well as a reduction in funding under business support programs.

Retail credit rates. The formation of interest rates on loans to the population is influenced by consumer and mortgage loans. Due to the absence of large-scale installment programs from banks, the weighted average interest rate on consumer loans increased in the third quarter (reaching 20.6% in September). On the other hand, against the backdrop of active mortgage lending under the housing programs of Otbasyl Bank ("Otau" and "Nauryz"), the interest rate on mortgage loans decreased to 10.8% in September (in June - 11.2%). At the same time, considering the significant share of installment loans in the structure of the population's loan portfolio, there is an increase in the overall cost of retail lending (Graph 24).

Graph 23. Deposit Rates in National Currency, %



Graph 24. Lending Rates in National Currency, %



Source: NBK

3.1.2. Credit channel and deposits (wealth channel)

Bank loans are growing amid high growth rates in lending to the population and businesses (Graph 25).

Loans to the population. The demand for loans to the population remains high (the growth of loans to the population by 24.5% y/y), despite a slowdown in the growth of consumer loans. The mortgage portfolio of banks showed a recovery growth in the third quarter of this year (in September, by 13.2% y/y). The rise in demand for mortgage loans was supported by the additional collection of applications under government preferential programs, an increase in the number of partner offers with developers and the active digitalization of mortgage products.

The growth of consumer lending, amid high inflation expectations and the digitalization of the banking sector, continues to limit the disinflationary effects of monetary policy. However, the introduction of regulatory measures, such as the limitation of the maximum amount for unsecured loans and the mandatory consent of a spouse for granting a loan, has had some effect on slowing the growth rate of consumer lending. At the same time, car loans continue to grow actively, supported by enhanced promotional offers from car dealerships and partner banks.

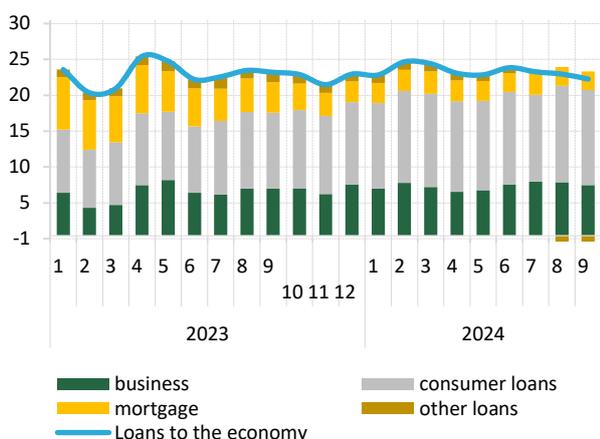
Business loans. The positive trend in business lending continues in the third quarter of this year (a 17.5% y/y increase in September), driven by a slight easing of lending conditions for large and medium-sized enterprises, as well as increased demand for loans from large businesses due to the

activation of several major investment projects. Overall, loan growth is observed across all types of business entities and key sectors of the economy. At the same time, there is an acceleration in lending to large and medium-sized enterprises since the beginning of this year, while growth in loans to small businesses has slowed.

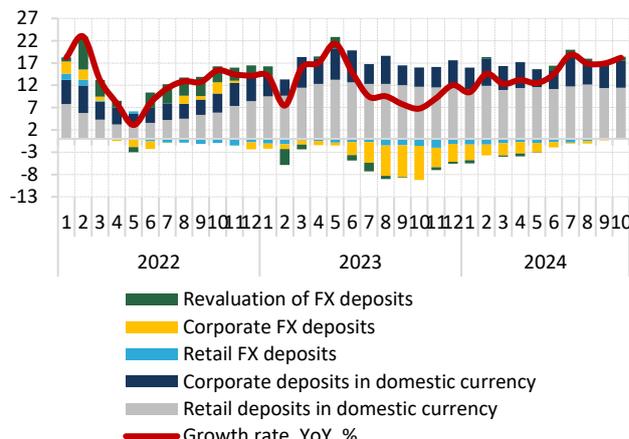
Current monetary conditions contribute to the strengthening of savings behavior. The main contribution to the growth of deposits still comes from deposits in the national currency (a 23.1% y/y increase in October), primarily due to the rise in deposits from individuals (Graph 26). Against the backdrop of the weakening of the national currency, the negative contribution of foreign currency deposits to the overall dynamics of deposits is decreasing.

Amid the ongoing monetary policy, the savings behavior of the population has strengthened. Thus, by the end of the second quarter of this year, the household savings rate³ reached a historic high.

Graph 25. Loans to the Economy from STBs (portfolio), YoY, %



Graph 26. Resident Deposits in Deposit Organizations, YoY, %



Source: NBK

The dollarization of deposits has updated the historical minimum

The dollarization of deposits continues its downward trend amid a high differential between interest rates in the national and foreign currencies. The share of foreign currency deposits from individuals has decreased at a faster pace, reaching a historic low of 19.1% (a 3.7 p.p. decrease y/y). The dedollarization of deposits from legal entities is occurring more gradually (a 2.3 p.p. decrease y/y), and since the beginning of the year, it has stabilized around 24% (near a 17-year low).

3.1.3. Exchange Rate Channel

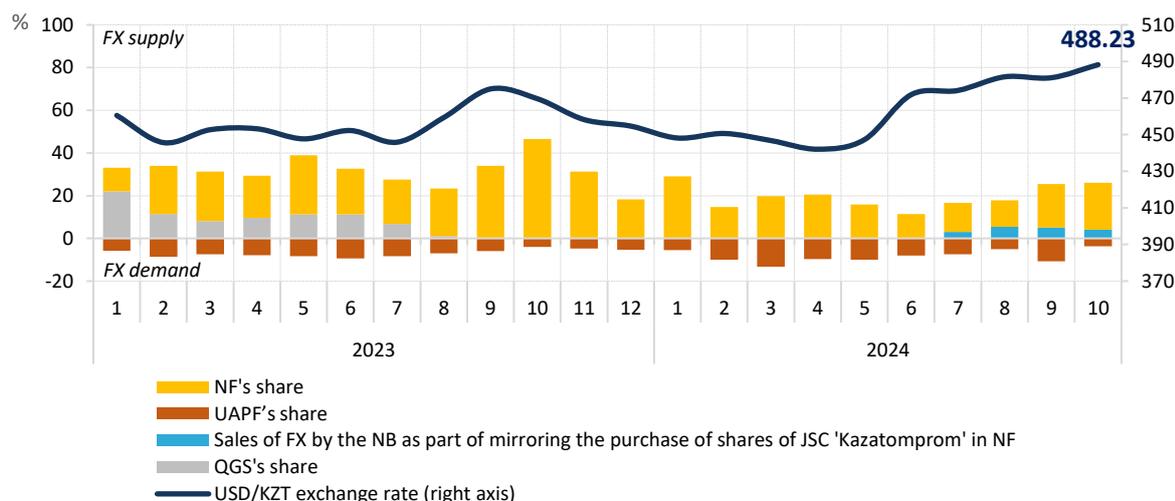
The depreciation of the national currency is driven by external and internal factors and leads to an increase in inflationary risks.

From August to October 2024, the national currency depreciated by 3% to 488.2 tenge per US dollar (Graph 27). The depreciation occurred against the backdrop of declining oil prices, the strengthening of the US dollar in global markets, and increased demand for foreign currency to finance infrastructure and investment projects by the government and quasi-state companies. Factors limiting a more significant depreciation of the tenge included an increase in transfers from the National Fund and the suspension of foreign currency purchases by the UAPF⁴. The weakening of the national currency intensifies inflationary pressures by raising the cost of imported goods.

³ (Total household income–Total household expenditures)/Total household income

⁴ For more information, see the information message on the foreign exchange market (<https://nationalbank.kz/ru/news/informacionnyye-soobshcheniya/17094>)

Graph 27. Shares of Large Participants in Currency Purchases/ Sales, %



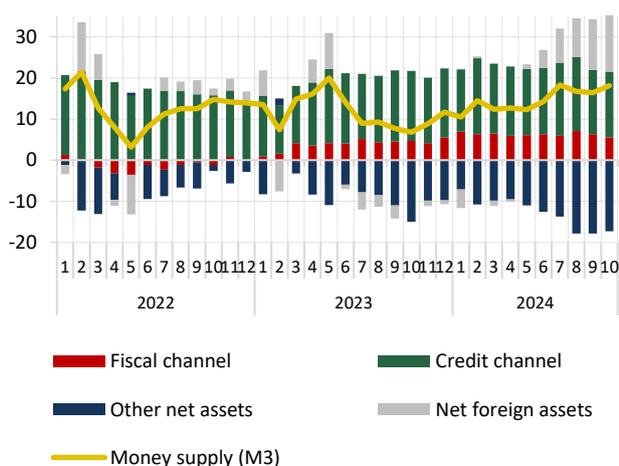
Source: KASE, NBK

3.2. Money supply

The expansion of credit and fiscal channels remains a key driver of money supply growth, with the contribution of external assets increasing significantly.

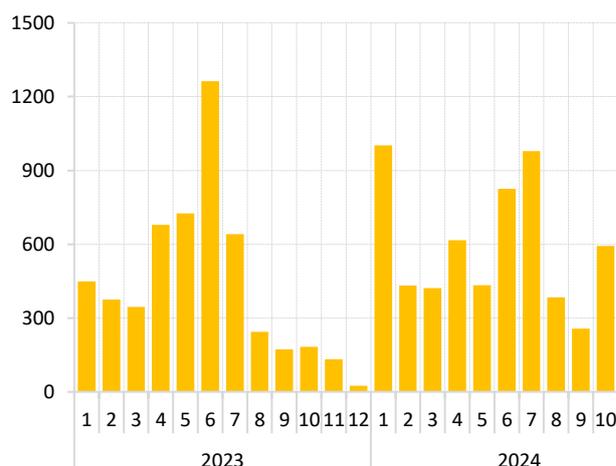
In October 2024, both the tenge money supply and the total money supply continued to grow at a high pace, increasing by 22.0% and 17.8% year-on-year, respectively (Graph 28). The positive contribution of external assets was driven by the issuance of Eurobonds by the Government of Kazakhstan in October this year, amounting to \$1.5 bln or approximately 734 bln tenge. At the same time, the main factors driving the expansion of the money supply remained the credit and fiscal channels, including the issuance of GSs to finance the budget deficit. In January-October of this year, the volume of GSs issuance by the Ministry of Finance amounted to 5.5 trillion tenge, which is 11.2% higher y/y. (Graph 29).

Graph 28. Money Supply, YoY, %



Source: NBK, KASE

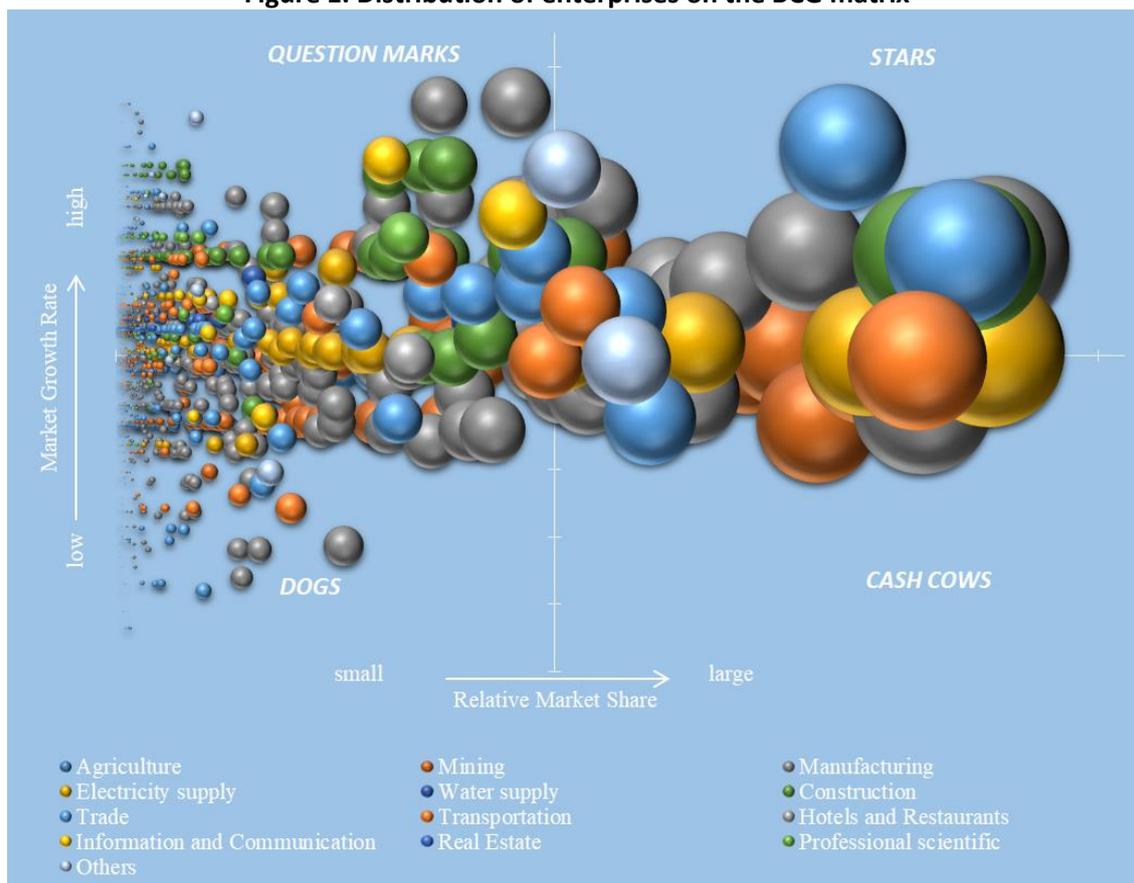
Graph 29. Volume of Transactions in the Primary GS Market, bln tenge



Box 1. Reach the stars. Assessment of the competitiveness of enterprises through the BCG matrix

To assess the degree of competitiveness by industry, the enterprises participating in the NBK monitoring were distributed on a matrix of the Boston Consulting Group (hereinafter - BCG), known as the "Relative Market Share"– "Market growth rates" matrix (Figure 1). According to this matrix, enterprises are distributed depending on their relative market share (X-axis) and market growth rates (Y-axis). The matrix is based on the output volume (hereinafter referred to as OV). To calculate the growth rate of the market, statistical data on the OV indicator for the year were used, to calculate the relative market share - enterprise data for the 3rd quarter of 2024, obtained as a result of a survey (OV of more than 2,200 enterprises).

Figure 1. Distribution of enterprises on the BCG matrix



Source: NBRK data and calculations

The relative market share is determined by the ratio of the share of the output volume (OV) of an enterprise to the share of the OV of the largest competitor. On the matrix, according to the BCG, enterprises are designated as circles in the corresponding quadrants, while the area of the circles is proportional to the scale of the enterprises.

Visualization, which makes it possible to visually assess the degree of competitiveness, is sent quarterly to enterprises participating in the NBK monitoring. From this form, enterprises can see not only their competitive position in the market, but also the scale of their activities relative to other enterprises.

For the accuracy of the distribution assessment, the shares of enterprises belonging to a particular group by industries were calculated (Table 1).

The table shows that the majority of enterprises (57.2%) belong to the "Question marks" quadrant, that is, these are enterprises with a high growth rate of the industry, but relatively low production volume, and this picture takes place in most industries. In agriculture and the provision of accommodation and food services, the vast majority of enterprises (87.3% and 85.5%, respectively) belong to the "Dogs" group - small enterprises in non-promising markets. In the economy, 41.2% of respondents belong to this group. There are

few "stars" in the sample as a whole (1.0%), there are relatively more of them in power supply and construction.

In world practice, it is believed that when "dogs" and "question marks" prevail in the economy, this indicates low competitiveness of enterprises, lack of investment, weak economic diversification, and, accordingly, the persistence of inflationary risks that hinder business development.

Table 1. Competitiveness by industry

	Stars	Question marks	Dogs	Cash cows
Agriculture	0,0%	12,7%	87,3%	0,0%
Mining	1,1%	46,6%	49,4%	2,8%
Manufacturing	1,1%	40,0%	58,1%	0,8%
Electricity supply	3,9%	85,3%	10,8%	0,0%
Water supply	0,0%	100,0%	0,0%	0,0%
Construction	1,4%	83,1%	15,5%	0,0%
Trade	0,8%	67,0%	32,0%	0,3%
Transportation and warehouse	0,5%	61,7%	37,3%	0,5%
Hotels and restaurants	0,0%	14,5%	85,5%	0,0%
Information and communication	0,0%	88,9%	11,1%	0,0%
Real estate	0,0%	100,0%	0,0%	0,0%
Professional and scientific activity	0,0%	75,8%	24,2%	0,0%
Others	4,8%	52,4%	40,5%	2,4%
Total	1,0%	57,2%	41,2%	0,6%

"Stars" – the enterprise occupies a large market share in the growing markets

"Question marks"⁵ - the enterprise occupies a small market share in the growing markets

"Dogs" – the enterprise occupies a small market share in the stagnating markets

"Cows" - the enterprise occupies a large market share in the stagnating markets

Box 2. Unconventional MP and inflation through the prism of changes in the CB's balance sheet. Countries experience.

Unconventional monetary policy (UMP) is usually applied by the CB to stimulate the economy in conditions of low inflation or deflation, with the exhaustion of opportunities for traditional instruments (classification in Table 1). This toolkit began to be widely used in a number of developed countries after the 2008 crisis.

Table 1. Types of UMP measures

No	Measure	Description	Goals
1	Large-scale asset repurchase	The CB buys government bonds, private sector bonds, which increases the number of reserves in the banking system.	Reducing long-term interest rates, supporting liquidity and stimulating lending activity.
2	Loan programs	The CB provides long-term loans to banks at low rates.	Reducing interest rates for borrowers, supporting the supply of loans in the economy, lending to businesses and households.
3	Regulation of market operations	Introducing changes to market operations: expanding the list of collateral, liquidity volumes, and the inclusion of new counterparties.	Liquidity support, prevention of liquidity crises, ensuring the normal operation of financial markets.
4	Forward guidance	Highlighting the future monetary policy conditions	Impact on market expectations, reducing uncertainty
5	Negative rates	Lowering money market rates below the zero lower bound	Stimulating lending and investment activity

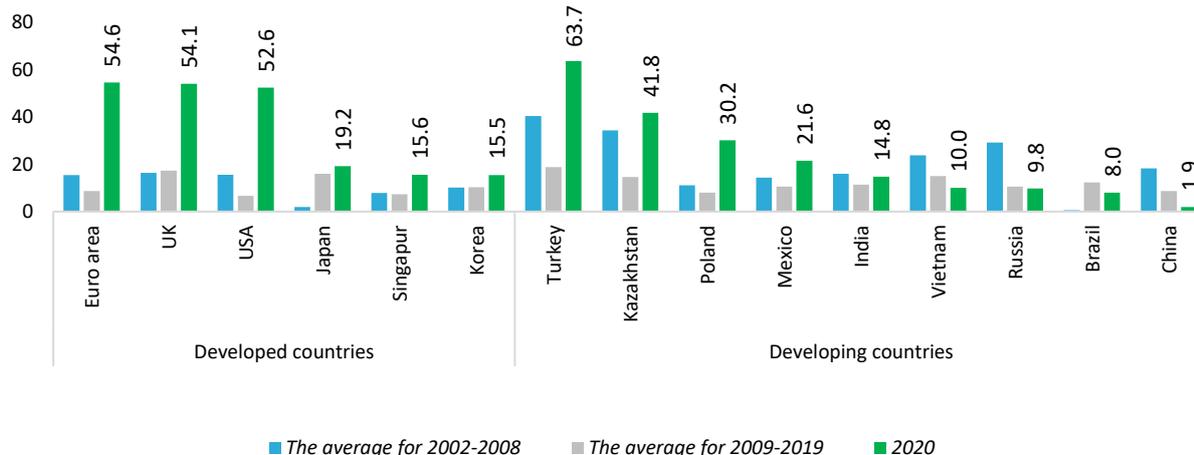
Source: official websites of the CB of the countries

A clear example of the implementation of the UMP is the significant expansion of the CB's balance sheets in 2020 in order to combat the economic and financial consequences of the coronavirus pandemic (graph 1). As a result, the growth of the monetary base due to the purchase of CB assets in advanced economies in

⁵ This matrix is used not only to position market participants in terms of competitiveness, but also to analyze and promote products and projects. Therefore, other names of the "question marks" quadrant are also found in the marketing literature: difficult children, problematic teenagers, dark horses, wild cats

2020 averaged 11% of GDP. In developing countries, the scale of quantitative easing programs was significantly smaller and led to an increase in the monetary base by an average of 3% of GDP.

Graph 1. The growth rate of the monetary base of central banks, YoY %

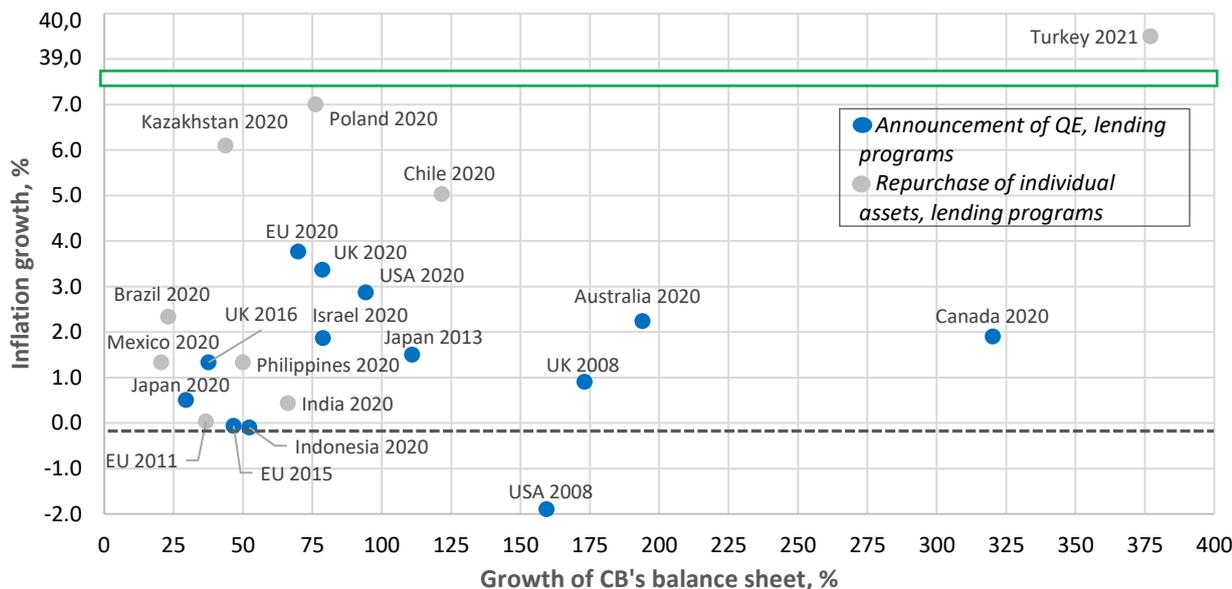


Source: calculations based on the IMF International Financial Statistics database

It is obvious that through the impact on demand, UMP measures have a certain effect on inflation and can lead to its noticeable growth. In order to check the degree of influence on price growth, the experience of the CB of a number of countries in terms of the application of UMP measures, which imply the injection of liquidity into the financial sector (measures 1-3 from Table 1), is considered. The relative growth of the CB's balance sheet⁶ was used as a marker indicating their use (Graph 2).

In developed countries, the use of quantitative easing has led to a less significant and short-term increase in inflation. In the case of developing countries, when the possibilities of reducing the CB's rate have not yet been exhausted, a significant injection of liquidity often has a stronger impact on inflation. This is clearly shown by the experience of Turkey, Poland, Kazakhstan and Chile, where the growth of the CB's balance sheet was accompanied by a significant acceleration of inflationary processes.

Graph 2. The growth of inflation and the growth of the balance sheet of the Central Bank of a number of countries within the application of UMP measures



Source: official websites of CBs and statistical committees of the surveyed countries

⁶ Only cases when the change in the balance of the Central Bank is caused precisely by the application of UMP measures are considered. The annual indicators (inflation and the balance of the CB at the end of the year) are compared on average for 3 consecutive years before and after the application of UMP measures.

The different reaction of inflation to quantitative easing in developed and developing countries is explained by the specific characteristics of their economies related to their position on the world market, the structure of the economy, and differences in the level of development of the financial market.

First, global shocks have different effects on the exchange rates of reserve currencies and currencies of the developing world. Excessive monetary issuance by the central bank of a developing country in such shocks only increases the risks of reducing the purchasing power of the national currency.

Secondly, the population of developed countries prefers to invest money in more profitable securities market instruments and purchase gold to protect against inflation. This trend continued during the pandemic - the Euro area population, for example, invested most of their excess savings in residential real estate and in financial assets such as stocks and bonds⁷.

Thirdly, there is serious confidence in central bank's ability can keep inflation at a given level in developed countries. The dynamics of the money supply is largely determined by the long-term inflationary expectations of the population and confidence in the ongoing monetary policy. Stable and anchored inflation expectations in developed countries allow central banks to pursue more flexible policies without worrying too much about rising inflation.

⁷ Battistini et al. (2023), "The consumption impulse from pandemic savings – does the composition matter?", published as part of the ECB Economic Bulletin, Issue 4/2023.