NATIONAL BANK OF KAZAKHSTAN

MONETARY POLICY COMMITTEE

Summary of the deliberation of the policy rate decision announced on 29 August 2025

The discussion of the Committee members took place during the meetings held as part of the "August 2025" forecast round in the period from 25 July to 29 August 2025.

The forecasting team from the Monetary Policy Department and the Balance of Payments Department presented updated assessments of current economic conditions, macroeconomic projections, and alternative scenarios.

Current Developments

During the discussion of inflationary processes, Committee members noted that inflationary pressure remains elevated and more persistent than is typical for the summer period. In July, annual inflation held steady at 11.8%, while persistent measures (core and seasonally adjusted inflation) slowed to 0.8% m/m but remain above their historical averages. Inflation expectations of households increased to 14.2% in July. A deviation between actual outcomes and forecasts was observed in the food component, particularly for meat, fruits, oils, and fats, which was attributed to supply shocks.

Domestically, signs of overheated demand were discussed: consumption continues to be supported by rapid retail lending growth. The output gap is assessed to remain in positive territory and to close only gradually in 2025-2026, indicating demand growth outpacing supply and increasing the tendency of businesses to pass costs through into prices. Demand in 2025 is additionally supported by fiscal factors and high investment activity, while the effects of fiscal consolidation are expected to materialize later, starting from 2026.

The external environment remains pro-inflationary: rising global food prices and still-elevated inflation in Russia are transmitting into domestic prices. In addition, external monetary conditions have tightened compared to the May forecast round due to the revision of market expectations regarding the trajectory of the U.S. Federal Reserve's rate cuts. Committee members agreed that this is partly driven by tariff policy, the effects of which will "spill over" into prices with a lag. At the same time, members noted the Fed's softer rhetoric compared to July and an increased likelihood of rate cuts amid the revision of U.S. labour market statistics.

The exchange rate channel has reinforced pressure: the recent weakening of the tenge, including against the ruble, is generating imported price pressures and easing actual monetary conditions. Projections for the external accounts indicate a widening current account deficit, while assumptions on oil remain moderate.

Taken together, Committee members emphasized that the balance of risks remains skewed to the upside for inflation.

Forecasts

The Committee decided to update its forecasts for 2025, while maintaining the medium-term trajectories. Inflation in 2025 is expected to be in the range of 11-12.5% (previously 10.5-12.5%); in 2026 – 9.5-11.5% (unchanged); and in 2027 – 5.5-7.5% (unchanged). The persistent component of inflation is projected to converge toward the 5% target by the end of the forecast horizon.

The forecast for economic growth in 2025 was revised upward to 5.5-6.5% on the back of strong current growth, resilient consumer demand, and active investment; the assessment for 2026 was maintained at 4-5%. It was additionally noted that in 2025-2026 growth will be supported by domestic demand and the oil sector, before returning to potential levels thereafter amid fiscal consolidation.

Discussion on the base rate

After reviewing the current conditions, updated forecasts, and alternative scenarios, the Committee proceeded to the discussion of the base rate decision. During the discussion, two approaches were expressed:

– to raise the rate and keep it elevated for some time, thereby creating conditions for a faster reduction in the future;

– to maintain the rate, while sending a firm signal of keeping it at this level for a prolonged period and of readiness to raise the base rate if inflation rises.

Supporters of raising the rate proposed different options, mainly focusing on an increase of 50 or 100 basis points. Some members who argued in favor of raising the base rate emphasized that inflationary pressure remains persistent and that the balance of risks is tilted to the upside. In their view, greater tightness of conditions is required now to strengthen confidence that actual inflation will follow its projected path.

It was noted that the summer period did not bring the usual seasonal slowdown in prices: monthly inflation and persistent measures remain above their average values for this time of year. This was interpreted as a sign of high "stickiness" of prices and that the recent slowdown was more related to one-off factors than to a genuine cooling of demand.

Fuel was considered a key factor for price growth and expectations. The baseline forecast for 2025–2026 already incorporates an increase in fuel prices of 12.5% y/y (similar to the rise in 2023). However, in the opinion of some members, there is a risk of faster actual dynamics, which reinforces the need for a clear anti-inflationary signal.

Several members pointed to overheated demand, a noticeable positive output gap, and accelerating sales and services against the backdrop of strong credit and investment impulses.

Attention was also drawn to the role of the exchange rate channel. In particular, the market dynamics of the tenge, in their view, are reinforced by weaker current account indicators and rising investment imports, which lead to greater volatility and easing of actual monetary conditions. To compensate for this, it was proposed to tighten monetary conditions further.

In addition, an alternative scenario of a less pronounced weakening of the ruble was discussed separately. Under its realization, the REER shifts into the undervaluation zone, which would ease actual monetary conditions over the forecast horizon. In such a configuration, a stronger ruble would amplify imported inflation. Therefore, the scenario of a stronger ruble was recognized as one of the pro-inflationary risks.

Another argument concerned transmission: in recent months, short-term money market rates have been at the lower bound of the corridor, monetary aggregates have been growing rapidly, and monetary conditions, taking into account the real interest rate and the real exchange rate, are closer to accommodative than to restrictive.

Finally, signals from the financial market were noted, where elevated yields at the long end of the curve and the structure of demand for government securities were interpreted as a request for a clearer confirmation of the priority of reducing inflation.

In aggregate, supporters of a rate increase viewed these factors – persistence of core inflation, sensitivity of the basket to fuel prices amid the risk of faster gasoline price growth, overheated demand, easing of monetary conditions due to the weakening of the tenge, the effectiveness of transmission, and market indicators – as forming a coherent argument in favor of policy tightening to cool overheating, strengthen the anchoring of expectations, and reduce the future "cost" of disinflation.

Some Committee members who supported maintaining the rate pointed out that inflation overall is moving within the forecast path: annual inflation in June and July – 11.8% – was in line with the National Bank's projected trajectory, while monthly core inflation slowed somewhat (to

0.8% in July). In addition, medium-term inflation forecasts were confirmed by Committee members at their previous levels.

Some participants suggested relying on the already expanded set of measures beyond the base rate: the revision of MRR conditions, mirroring of foreign exchange reserve operations, and macro- and microprudential measures. The main argument was to allow time for these decisions to take effect and to add targeted tightening by improving the effectiveness of money market instruments. In their view, this would strengthen transmission without excessive tightening of monetary conditions. In particular, with regard to the operational benchmark, it was noted that in recent months TONIA often formed near the lower bound of the corridor, with the average spread to the base rate approaching (-)0.9 percentage points. In this regard, practical measures to improve transmission were discussed: more active sterilization of liquidity and enhancing the efficiency of quasi-sovereign sector liquidity management to reduce distortions in the money market. These measures are aligned with monetary policy and, taken together, reinforce its disinflationary effect.

As a result, in the opinion of those who supported keeping the base rate unchanged, these factors indicate the appropriateness of maintaining the current level of monetary tightness, while any further tightening would require the accumulation of additional observations, primarily from the August-September data. At the same time, Committee members in favor of maintaining the rate supported the general view of the need to preserve a strong signal of readiness to act should inflation rise.

The majority of Committee members agreed that it is advisable to keep the base rate at its current level for an extended period, maintaining a firm signal and relying on incoming data, as inflationary pressure remains elevated. At the same time, the readiness for additional tightening in the event of rising pro-inflationary risks was emphasized.

Following the discussion, the Committee decided to maintain the base rate at 16.5% per annum with a corridor of +/- 1 percentage point. The decision is based on the updated forecasts and the assessment of the balance of risks. With inflationary pressure remaining elevated, the National Bank will maintain moderately tight conditions for an extended period in order to consolidate the disinflation trend and stabilize expectations. In the absence of a noticeable slowdown in inflation in the coming months, the Committee will consider the possibility of raising the base rate at its upcoming meetings. Additional monetary tightening will be provided through measures related to MRR, macro- and microprudential instruments, and by improving the effectiveness of the operational benchmark (TONIA).

Assessments of the Base Rate Trajectory

As part of the decision, Committee members presented their assessments of the most likely trajectory of the base rate for 2025–2027 (Table 1, Chart 1). Compared to the previous forecast round, these assessments were revised upward for 2025 and 2027, while remaining unchanged for 2026.

The opinion of each Committee member was based on the information available at the time of the meeting. These represent assessments of the monetary policy stance that, in the view of Committee members, will be necessary to achieve the inflation targets, given the current conditions and future outlook at the time of the decision.

The proposed base rate trajectory does not imply a commitment by the Committee to maintain the rate at these levels. In its communication of decisions, the Committee will explain the factors and assumptions underlying them, including in the event of deviations from the previously assessed trajectory.

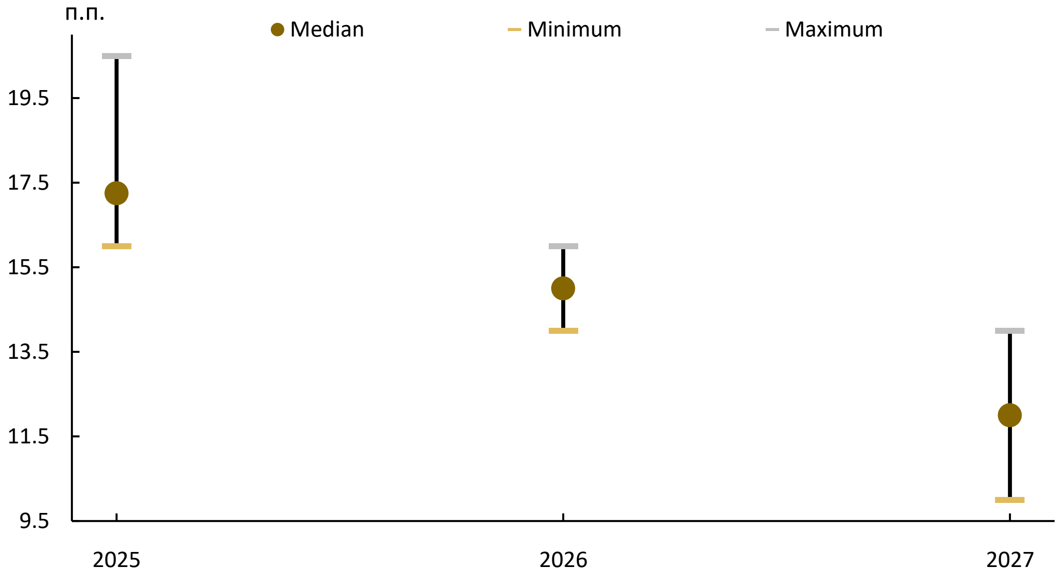
Table 1. Assessments of the Base Rate Trajectory

Indicator	Median			Range		
	2025	2026	2027	2025	2026	2027
Base rate at year-end, %	**17,25** (16,5)	**15,0** (15,0)	**12,0** (11,4)	**16,0-20,5** (14,0-18,5)	**14,0-16,0** (13,0-17,0)	**10,0-14,0** (8,0-13,5)

Notes:

1. If a Committee member provided an interval of assessments, the midpoint of this interval was used as the data point for determining the median.
2. The range includes the assessments of all Committee members from the minimum to the maximum for each year (including the bounds of the interval if the assessment was presented as an interval rather than a point).

Chart 1. The range of estimates of base rate by MPC members



Source: Committee members' assessments

More detailed information on the factors underlying the decision and on the forecasts is presented in the Monetary Policy Report published on the official website of the National Bank on 3 September 2025.