National Bank of the Republic of Kazakhstan

INFLATION REPORT

March 2019

Almaty, Kazakhstan

The **Inflation Report** is a quarterly publication of the National Bank which contains the analysis of key macroeconomic indicators affecting inflation as well as the forecast of macroeconomic parameters in the short- and medium-term horizon.

The Report is published in an electronic form on the official Internet-resouce of the National Bank in the Kazakh, Russian and English languages.

The forecast of macroeconomic indicators was prepared on the basis of statistical information as at **15.02.2019**.

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SUMMARY

Since the time of release of the previous Inflation Report, the National Bank has made two decisions regarding the base rate. In January and in March 2019, the base rate was retained at 9.25% with the unchanged band of +/-100 basis points.

In February 2019, the annual inflation preserved its downward trend having reached a new target band of 4-6% and accounting for 4.8%. The actual inflation pattern has been building below the numbers which had been anticipated a quarter before. Deceleration of inflation processes at the end of 2018 and the beginning of 2019 was observed as a consequence of positive shocks in the fruit and vegetable market and fuel and energy market as well as of the declining prices of regulated services. However, in February 2019 the core inflation (excluding the change in prices of fruits, vegetables, regulated services and energy resources) had significantly exceeded the headline inflation accounting for 7.1%, which is indicative of unsteady mature of the inflation background in the economy.

In February 2019, the inflation expected in 12 months accounted for 4.7%. The anchoring of inflation expectations close to this level and their increasing stability in the short term will help to achieve the inflation goal in 2019.

According to the National Bank's assessments, under the baseline scenario which assumes the price of oil (Brent) to be at USD 60 per barrel, in 2019 the annual inflation will be within the targeted band of 4-6%. As compared to the previous forecast round of "November-December 2018", a short-term inflation path was adjusted downwards.

In 2020, pro-inflation risks could be realized. First, a positive effect on inflation from reduction in tariffs of regulated services at the end of 2018 – beginning of 2019 will be exhausted. Second, the consumer demand will continue its growth associated with the fiscal stimulus. Apart from those, the dynamics of world food inflation will be having an impact on the rise of food inflation in Kazakhstan over the forecast horizon.

As compared to the previous forecast round, the risk profile has not undergone significant changes except for some easing of external risks. In particular, the risk of a fall in the oil price given the price stabilization as well as the risk of capital outflow from developing markets due to a milder posturing of the US Fed went down. At the same time, persistently high pro-inflation risks on the part of consumer demand and fiscal impulse are worth mentioning.

Over the forecast horizon, the output gap will remain in a weakly positive zone; as a result, an additional pro-inflation pressure on the pricing processes will be observed. In the medium term, a positive gap will be shrinking approaching zero by the end of the forecast period.

In 2019-2020, Kazakhstan's real GDP growth will slow down to the level close to its potential. The factors which determine the dynamics of economic activity in the short-term and medium-term periods will not substantially differ. In 2019-2020 in the real GDP growth will slow down to values below 4%. The domestic demand will be serving as a key growth driver given the increased consumer and investment demand. The economy will be also stimulated by a weakly positive fiscal impulse associated with the growing budget spending. Net exports will be limiting the economic upturn during the forecast period because of a slower growth of exports.

Decisions made by the National Bank help to preserve a neutral nature of monetary conditions. Real market interest rates are maintained at the level which is sufficient to attain the inflation target and at the same time is helping to maintain the economic growth rates close to the potential. Risks of deterioration in the external situation that were taken into account in prior decisions regarding the base rat level have not realized and their probability has decreased, according to the National Bank's assessment.

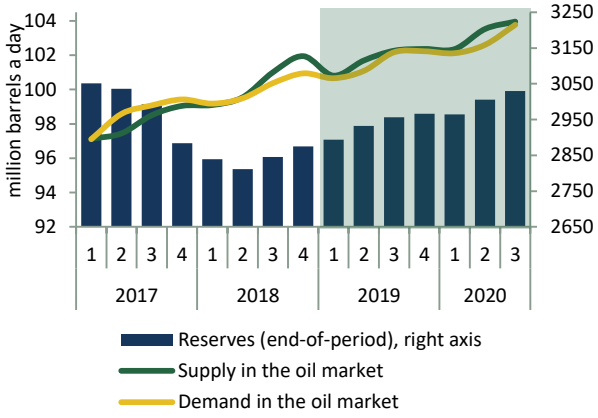
I. FORECASTS OF KEY MACROECONOMIC INDICATORS

1. External Forecast Assumptions

In 2019-2020, the global oil reserves will continue to build up gradually[1]. The growth of the world reserves will be accompanied by the increased oil extraction as well as by a slower rise in its consumption.

In 2018, the global oil reserves had slightly increased due to acceleration in the oil extraction in some countries[2] and a minor slowdown in its consumption (Figure 1). In this context, world oil prices, while having reached their four-year maximum in October 2018, nosedived. According to Reuters, from the beginning of 2019, the price of oil (Brent) increased by more than 17% and made up USD 66.25 per barrel as at 15 February 2019.

Figure 1. Dynamics of the Global Oil Market, YoY

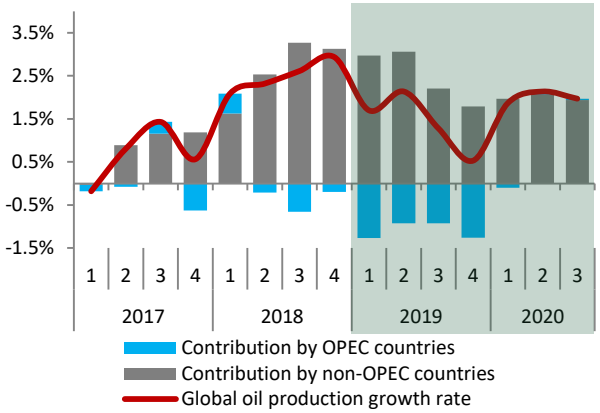


Source: EIA

The oil production will be demonstrating a feebler growth as compared to 2018 (Figure 2).

The main contribution to the global oil production will be made by the USA, Canada, countries of the European Union and the Latin America. In OPEC countries, because of the agreement to cut the oil production, the oil extraction is expected to go down in 2019 with a sluggish recovery of its growth in 2020.

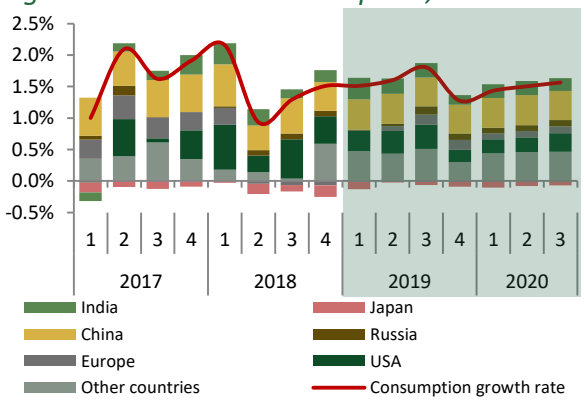
Figure 2. Global Oil Production, YoY



Source: EIA

The global oil consumption (Figure 3) will accelerate; however, its growth rates will be feebler than the growth rates of supply.

Figure 3. Global Oil Consumption, YoY



Source: EIA

The economic position in key oil importing countries, coupled with a further development of international trade relations and global financial environment, will be serving as one of the main explanatory factors for the oil pricing. According to the forecasts made by international organizations, in 2019 the price of oil (Brent) will be USD 68.1 on average and in 2020 it will slightly rise to USD 69.1 per barrel (Table 1).

[1] According to forecasts of the US Energy Information Administration (EIA)
[2] USA, Russia, Saudi Arabia

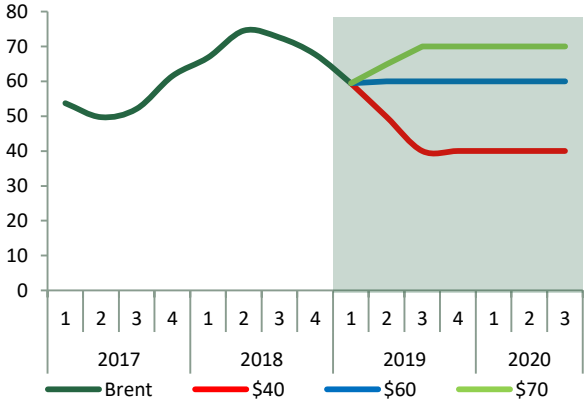
Table 1. Forecast of the OIL Price (Brent), USD per barrel

	2019	2020
Thomson Reuters*	68.3	69.0
IMF**	69.4	70.2
World Bank**	69.3	69.3
Bloomberg***	66.9	70.0
Consensus forecast****	66.6	67.0
On average	68.1	69.1

* The forecast median based on data at 31.01.2019
** The IMF's (January 2019) and the World Bank's (January 2019) forecast is based on the averaging of oil price of such oil brands as U.K.Brent, Dubai Fateh, and West Texas Intermediate crude oil
*** The forecast median based on data at 21.02.2019
**** Survey of 25 January 2019

Based on the anticipated oil price dynamics and assumptions about a further development of the oil market as part of the "February-March 2019" forecast round for the forecast period from the first quarter of 2019 through the third quarter of 2020, the National Bank considered a scenario with the price of oil at USD 60 per barrel as its baseline scenario. The optimistic scenario assumes the price of oil to be at USD 70 per barrel, and the pessimistic scenario – USD 40 per barrel (Figure 4).

Figure 4. Price of Oil (Brent), USD per Barrel



Source: EIA

1.1 Foreign Economic Situation

In its last report, the IMF revised short-term and medium-term current assessments and forecasts regarding the global economic growth downwards[3]. In 2018, slower growth rates of economies in the EU and some Asian countries in the second half of the year served as a main factor. In 2019-2020, a slowdown of the global economy is to a larger extent explained by trade disputes between the USA and China which caused deceleration of the global industrial production and trade as well as by tightening of financial conditions and the increasing external debt in some developed and developing countries. Nonetheless, the accelerating economic growth rates in the USA, India, a number of African countries and countries in the Middle East will support the upturn of the global economy.

The economic growth in the EU member countries over the forecast horizon will be moderate and will be supported by a fairly eased monetary policy of the ECB coupled with the easing of tax burden in some EU countries (Belgium, Italy) and strong performance in the labor market.

Favorable terms of financing will be conductive to expansion of the investment activity and the employment. A positive impact is also anticipated due to renewal of the trade agreement with Japan that implies a gradual cancelation of duties for goods and services produced and provided by the partner countries. The constraining factors will include uncertainty in trade relations between the USA and China whereby the EU exports may weaken still more; a further growth of Italy's external debt; as well as the factor of Brexit which bears the risk of reduction in exports from the European Union to the United Kingdom.

As for the Chinese economy, a moderate deceleration is anticipated. The household consumption along with the government's efforts to stimulate the economy will be acting as the main growth drivers. A high degree of uncertainty regarding trade disputes with the USA will continue to negatively affect the export volumes, enterprise revenues and restoration of investor confidence. A slow growth of lending will be translated into the cooling of the housing market; this will also serve as a

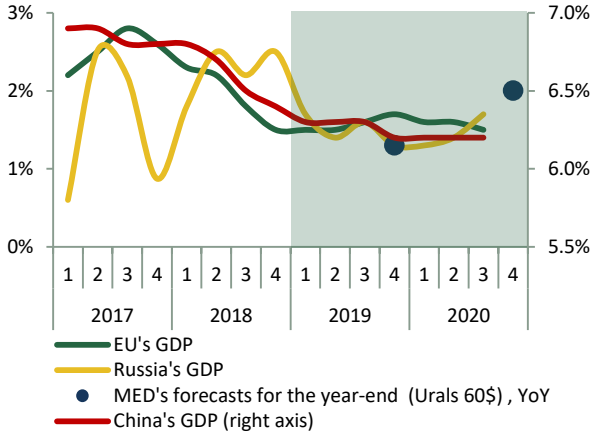
[3] World Economic Outlook Update, January 2019 "A Weakening Global Expansion"

constraining factor. In response to the anticipated slowdown in the economy and complicated external environment with a view to support economic activity of enterprises, the government intends to implement a number of stimulus measures related to cuts in taxes, reduction of statutory reserve requirements for banks, liquidity provision to the private sector as well as implementation of a number of infrastructure projects.

Russian Economy. According to assessments made by the Russian Ministry of Economic Development, Russia's GDP growth in the fourth quarter of 2018 accounted for 2.5%. During 2018, the Russian economy expanded by 2.3% in real terms. High performance in 2018 was driven by the growth in extraction of mineral resources, in the construction sector, and financial and insurance activities. It should be mentioned here that in January 2019 the Rosstat revised the dynamics in the construction sector towards a strong increase (from the near-zero values to 5.3 % for 2018).

According to the National Bank's assessments, over the forecast horizon the economic growth rates in Russia are expected to slow down to 1.5% in 2019 and 1.6% in 2020. The anticipated slowdown of Russia's GDP is associated with the deceleration of business activity given the increase of the VAT rate, a moderately tight monetary policy, and fluctuation in the global markets. According to forecasts made by Russia's MED, if the baseline scenario is realized Russia's GDP would slow down to 1.3% in 2019, and in 2020 it would accelerate to 2% (Figure 5).

Figure 5. Real GDP Growth in China, EU, and Russia, YoY



Source: Eurostat, National Bureau of Statistics of China, Rosstat, MED RF, Consensus Ecs., European Commission, NBRK's forecasts

According to the IMF's assessments, the global economic growth accounted for 3.7% in 2018 (in 2017 – 3.8%), and in 2019-2020 it is expected to slow down to 3.5% and 3.6%, respectively.

1.2 External Inflation Dynamics

At the end of 2018, deceleration of inflationary processes was observed in many countries. The main reason for that was the decline in the world oil prices. In 2019, some acceleration of inflation in Russia and China is anticipated, followed by the comeback to the inflation rates of 2018. In the EU, inflation will be within the targets.

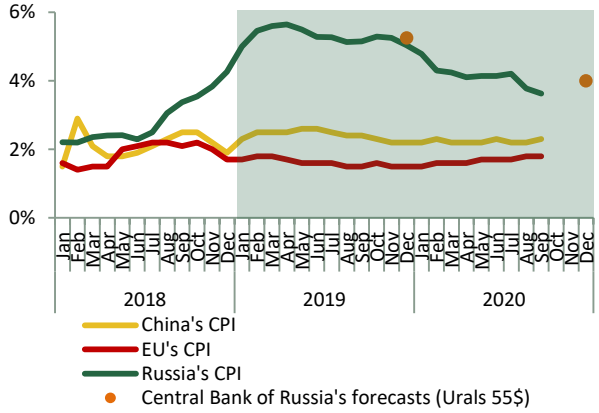
Inflation in the EU, according to forecasts of international organizations, will be fluctuating around 2% throughout the forecast horizon. Moderate growth rates of inflation are associated with lower world oil prices as compared to the earlier forecasts. By the end of 2020, inflation in the EU will be gradually accelerating because of the growing service component against the steadily increasing salaries and wages.

Inflation in China at the end of the last year decelerated as a result of a decline in prices of cars because of a feeble domestic demand. The price is anticipated to go up by the middle of 2019 given depreciation of the local currency against the US Dollar as well as an expected growth in prices of seasonal products and meat as a consequence of a

spread of the African swine fever. Starting from the second half of 2019 and up to the end of the forecast period, inflation will be around 2%-2.2%.

Inflation in Russia at the end of 2018 accelerated, being caused by depreciation of the ruble as well as by the rising prices pending the increase in the VAT rate and a dramatic growth of consumer lending. According to the National Bank's assessments, the annual inflation in Russia under the baseline scenario will accelerate to 5.6% in the first half of 2019. However, as effect of the abovementioned factors is exhausted the situation will stabilize and inflation will fit back into the targeted range (about 4%) in the spring of 2020. According to forecasts of the Central Bank of Russia, at the end of 2019 inflation in Russia will accelerate to 5-5.5%. In 2020, it will gradually decelerate to 4% (Figure 6).

Figure 6. Inflation in China, EU, and Russia, YoY



Source: Eurostat, National Bureau of Statistics of China, Rosstat, Central Bank of Russia, Consensus Ecs., European Commission, NBRK's forecasts

1.3 Monetary Conditions in the External Sector

As compared to the previous forecast round, expectations regarding a further tightening of monetary policy pursued by central banks of trading partner countries have subsided to a great extent.

At the recent January session, the US Fed left its policy rate unchanged amidst expectations about a slower growth of the EU's and China's economies as well as uncertainty regarding the trade disputes with China and a possible weakening of the effect of the earlier implemented fiscal stimuli. The rhetoric concerning further measures became more low-key. An expected increase in the US Fed's rate in 2019 will most likely occur by the year-end only. As for 2020, the prospects of the policy rate increase are becoming quite minimal.

In the EU, the monetary policy is persistently adaptive. Until the summer of 2019, key interest rates will be maintained at the existing minimums. Also, with a view to maintain favorable liquidity and monetary stimulus environment, the ECB decided to continue reinvesting the bulk of payments from redemption of securities which were acquired as part of the asset purchase program.

The Central Bank of China, due to the slowing economic growth rates and taking into consideration a further struggle with proliferation of a shadow banking business, plans to strengthen the support to the economy. To this end, the mandatory reserve ratios for banks will be reduced, the tax burden will be eased; in addition to that, the Central Bank of China announced about the introduction of a new monetary policy instrument – a medium-term standing lending facility which is aimed at providing a long-term liquidity support to private and small-sized companies.

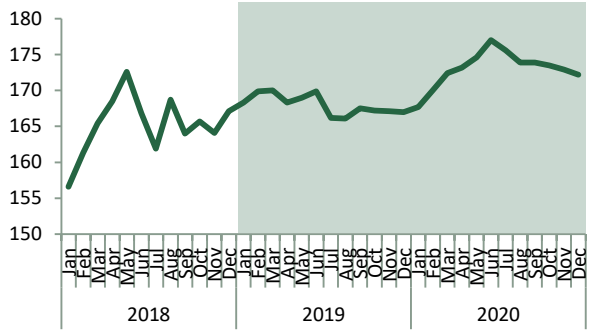
Given that, in 2019-2020 inflation in Russia will be smoothly decelerating; according to our assessments, monetary conditions in Russia will not change substantially. In the medium term, amidst decelerating inflation and its entry into the targeted range, some easing of the Bank of Russia's monetary policy is possible.

1.4 Commodity Markets

The FAO cereal price index which is a proxy for the food component of inflation in January 2019 as compared to the same period of the previous year increased by 7.3% and made up 168.1 points.

In 2019, the UN Food and Agriculture Organization forecasts the growth in consumption, the decline in the global reserves and a concurrent reduction of production. In 2019, this will serve as one of the main reasons for the growth in the cost of cereals. It is also worth mentioning that the food consumption of wheat will be in line with indicators of the population growth so that limitations for extension of acreage will be the factors for a further reduction of cereal stocks. In the medium term, this will significantly affect the growth in world prices of cereals (Figure 7).

Figure 7. FAO Price Index, 2002-2004 = 100%

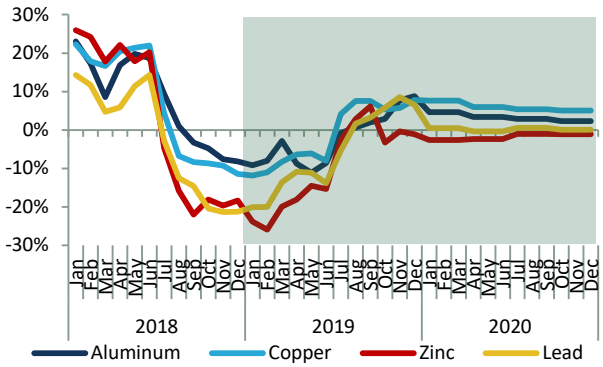


Source: UN FAO

In the metals market, prices of the reviewed metals will remain at the existing levels nearly until mid-2019, being influenced by a feeble demand on the part of China because of its environmental program and slower economic growth rates as well as due to the growing concerns about the global economic deceleration on the whole.

From the second half of 2019 and up to the end of the forecast period, prices of metals are expected to go up; this will be driven by acceleration of the economy in India, in African countries and other importing countries, by resolution or minimization of trade disputes between countries as well as the existence of shortage of some metals in the world.

Figure 8. Dynamics of Metal Prices, YoY



Source: Reuters, Consensus Ecs.

2. Development Prospects of the Economic Situation under the Baseline Scenario

2.1 Inflation

In 2019, the annual inflation will be within the targeted band.

The annual inflation in the food market continues its gradual deceleration which began in 2016. In this context, the National Bank is systematically revising and lowering the inflation target. The inflation target band for 2019 is 4-6%.

The external inflation background will be intensifying in 2019, and will gradually weaken in 2020. The main reason for that will be the inflation dynamics in Russia during these years and an expected growth in the world prices of cereals.

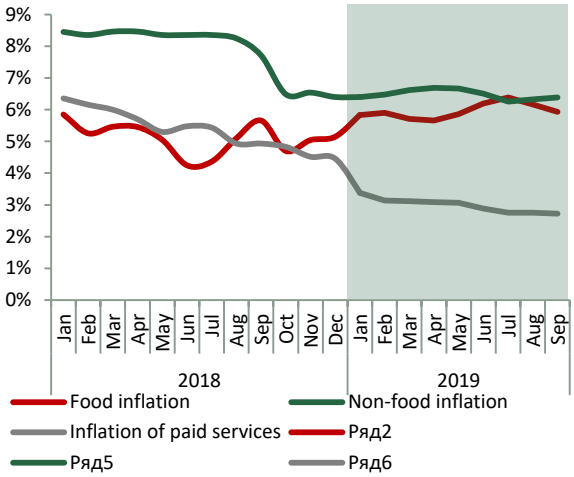
An internal inflation pressure will be manifesting itself throughout the forecast period. It will be connected with the expansion of domestic demand against the increase in real cash income and the budget spending on social needs.

A positive shock from the decline in prices in the food and vegetable market which occurred in 2018 is diminishing over time; this will become the main factor for acceleration of the food component of inflation over the short-term horizon.

Apart from that, as a consequence of the local currency depreciation which happened in the second half of 2018, prices of food producers are expected to accelerate their growth. In response to the last year's depreciation of the tenge, prices of non-food products are also anticipated to undergo residual readjustment over a short-term horizon. At the same time, anticipated price stability in the market of fuel and lubricants and solid fuel will enable to partially offset negative trends. As a result, in 2019 no significant change in the dynamics of non-food inflation is expected.

In 2019, prices of non-regulated services will continue growing, remaining at the existing levels. Meantime, there is an expectation that tariffs for services of natural monopolists, after their downward revision at the end of 2018 – beginning of 2019, will remain at a stable level. A moderate growth in prices and tariffs for regulated services will become the main factor for deceleration in inflation of paid services (Figure 9).

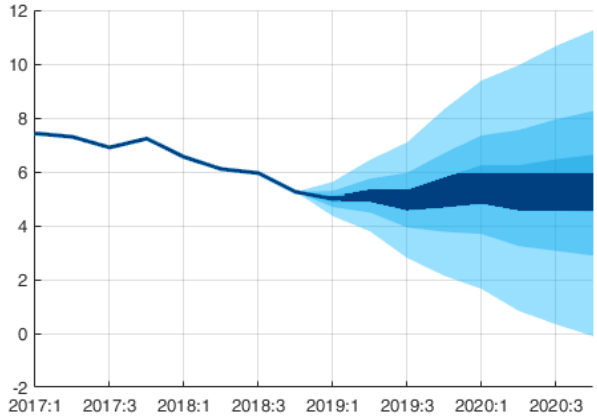
Figure 9. Forecast of Inflation Components for 2019, YoY



Source: NBRK's calculations

In 2020, no significant deceleration of inflation is anticipated (Figure 10). First, a positive effect from the downward adjustment of tariffs for regulated services on the inflation will be exhausted. Second, the consumer demand will preserve its growth which is associated both with the increasing minimal wages and other social expenditures as well as with the abatement of personal income tax for low-paid categories of employees. In addition to that, the dynamics of global food inflation will be influencing the growth of food inflation in Kazakhstan over the forecast horizon.

Figure 10. Inflation, Quarterly Average, YoY, %



Source: NBRK's calculations

It should be noted that in case if the forecast assumptions change and negative external and internal shocks are realized, the dynamics of inflation would be adjusted upwards.

2.2 Economic Activity

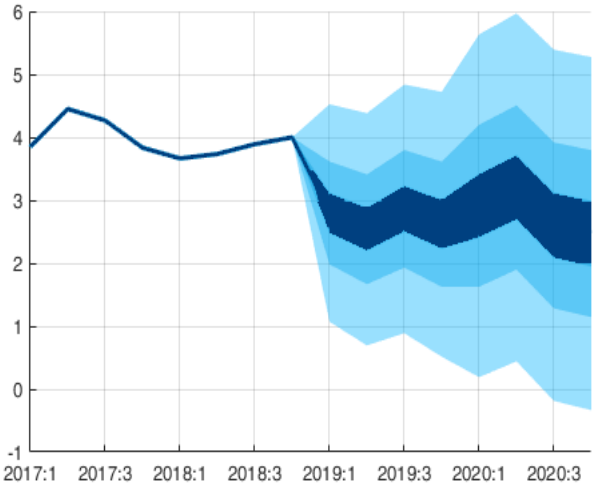
In 2019-2020, Kazakhstan's real GDP growth will be close to its potential; however, the output gap will be still in a weakly positive zone throughout the forecast horizon putting an additional pro-inflation pressure in the economy.

Forecasts about the GDP growth have not undergone significant changes as compared to the previous forecast round. Factors that determine the dynamics of economic activity in the short-term and medium-term periods will not be considerably different.

A positive gap will be shrinking over the medium-term forecast horizon approaching zero by the end of the forecast period.

In 2019-2020, the GDP growth will slightly decelerate to the level lower than 4% (Figure 11).

Figure 11. Dynamics of GDP Growth, YoY, %, cumulative



Source: NBRK's calculations

The domestic demand will be acting as a key growth driver against the increasing consumer and investment demand. In 2019-2020, the economy will be also stimulated by a weakly positive fiscal impulse which is associated with the growth in budget spending for the increase of wages, retirement benefits, allowances and other social measures. Net exports will be limiting the economic growth in the forecast period because of a slower rise of exports.

The main channel for expansion of the consumer demand in 2019-2020 will be the growing consumer lending as well as the increasing real cash income of the population supported by the rise in minimal wages and the eased tax burden on employees whose salaries and wages are below the amount of 25 minimum calculation indices.

The growth in investment demand in the medium term will be related to the hike of fixed capital investments as part of construction of a third generation plant in the Tengiz oil field. Investments in residential construction will be also demonstrating positive dynamics within the frames of a further implementation of programs stimulating the demand for housing.

Government spending on consumption may be demonstrating weakly positive dynamics in the medium term. The growing spending on salaries and wages to employees

working in the public sector will act as the main growth factor. Meantime, a constraining effect on the government consumption will be made by optimization of expenditures in non-priority spheres of the expense portion of the budget.

The growth rates of exports will slow down significantly. The moderate dynamics of exports will be associated with the shutdown of Kazakhstan's major oil and gas fields for repair for one month to one month and a half. Besides, the potential for expansion of extraction in the Kashagan field is substantially limited while Karachaganak is entering the phase of the falling production. Alongside with that, a constraining effect on the dynamics of exports will be made by a feeble external demand amidst a slowing business activity in China as well as low GDP growth rates in the EU and China.

In turn, expansion of the consumer and investment demand will become the key components of the growth of imports in the forecast period.

The contribution by net exports to the GDP growth will be negative in the forecast period. The growth rates of imports will be exceeding those of exports.

As for the GDP production in the short-term period, the growth in all key sectors of the economy is anticipated. A constraining effect on the economic growth will be made by deceleration of the growth rates in the mining industry that is caused by the shutdown of Kazakhstan's major oil and gas fields for maintenance.

This factor will also produce a negative effect on the growth of trade, namely wholesale trade of non-food products (crude oil. A positive contribution to the growth of trade will be made by the increased retail sales against the growing real cash income of the population and the positive dynamics of consumer demand.

The manufacturing industry will be demonstrating a progressive growth due to the expanded production of interim goods in the metallurgical industry (production of ferrous metallurgy and non-ferrous metals).

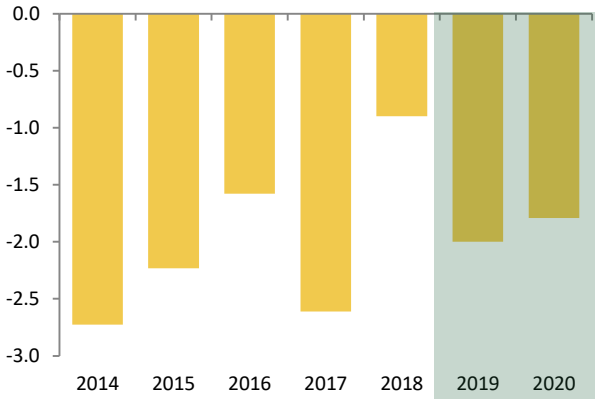
Volumes of construction works and freight turnover will be growing at the rates comparable with those in 2018.

2.3 Fiscal Policy

Over the forecast horizon, the national budget deficit will be expanding as a consequence of weakness of the revenue portion of the budget and an active spending policy.

The National Bank's forecasts regarding the budget deficit are more conservative as compared to forecasts made by Kazakhstan's Ministry of Finance; this is related to the difference in assessments of future values of the nominal GDP.

Figure 12. National Budget Deficit, as % of GDP



Source: Kazakhstan's Ministry of Finance, NBRK's calculations

In 2019-2020, the budget revenues will be showing a minor growth of 5.9% and 4.2%, respectively. The main reason will be the moderate dynamics of economic activity over the forecast horizon determined, among other things, by lower oil prices as compared to 2018.

An additional pressure on the growth of the revenue portion of the budget will be put by reduction in tax revenues as a result of decreased proceeds from export customs duties for crude oil (in 2018 their share in the total volume of tax revenues accounted for 18.6%) that will be furthered by a slippage of overall oil extraction volumes in major oilfields. During 2019, Tengiz, Kashagan and Karachaganak oil fields are expected to be shut down for maintenance.

In 2019-2020, the budget spending will go up by 10.7% and 4.1%, respectively. The stepping-up of the expense portion of the budget will be associated with the increase in minimal wages, the raise in wages of employees in the law enforcement sphere as well as with the growth of expenditures related to social security, healthcare and education. An additional contribution to the growth in the expense portion of the budget will be made by expenditures for defense and the industry as well as the enhanced burden from the debt servicing in connection with the Eurobonds issuance at the end of 2018.

Therefore, given the feeble growth dynamics of the revenue portion of the budget and the expansion of the budget deficit to 2.0% in 2019 and to 1.8% – in 2020, in 2019-2020 the fiscal impulse is anticipated to be weakly positive (Box 1). This will be an indication of a pro-inflation pressure on the part of the fiscal policy.

2.4 Balance of Payments

In 2019, the state of the current account of the balance of payments is expected to deteriorate as compared to 2018; this is related to the decreased export volumes. At the same time, as compared to the previous "November-December 2018" forecast round, the current account had showed up a smaller deficit (3.0% of GDP as compared to 3.9% of GDP) given the decreased deficit of the income balance.

In 2020, the current account deficit will go up to 4.2% of GDP, being driven by the scenario-based decline in oil prices, anticipated curtailment in the volume of oil and gas condensate production and a moderate growth in imports of goods.

Based on performance in 2019, exports are expected to fall by 15.8% (the previous forecast – by 8.8%) to USD 52.2 bln. The change in the forecast is related to prices of oil and the downward revision of expectations about oil extraction. The downward movement of the forecast is also associated with revision of growth rates of the EU and Chinese economies towards a stronger deceleration as compared to the previous forecast round. In 2020, exports of goods will decline by 2.3% to USD 51.0 bln.

Imports of goods in 2019 will remain virtually unchanged – the growth of 1% to USD 34.8 bln., and in 2020 it will go up by 7.6% to USD 37.4 bln. Lower volumes of imports as compared to the previous forecast (USD 36 bln.) are determined by the assumption about the ban by Kazakhstan's Ministry of Energy in respect of the gasoline import from Russia by the railway transport till the end of 2020.

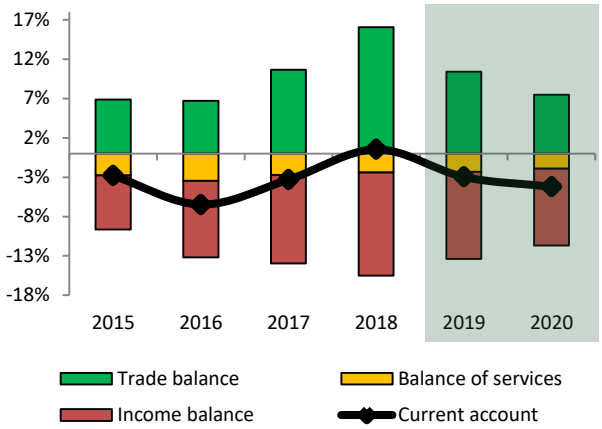
The consumer imports will be supported by the growth in disposable income of the population due to the rising minimal wages and social benefit payments, abatement of the personal income tax rate for certain categories of employees as well as by the volumes of new consumer loans provided.

The interim and investment imports will be growing as a result of implementation of government programs and investment projects, primarily in the oil and gas sector.

In the forecast period, the deficit of income balance is expected to go down to USD 18.5 bln. in 2019 and USD 17.7 bln. in 2020. The existing forecast path of the income balance is somewhat better than the forecast in the previous review; this is related to a slowdown in the growth of foreign investors' returns in the primary sector of Kazakhstan's economy in the second half of 2018 and to reduction of prospective oil extraction over the forecast horizon.

The key risks in the forecast include a mismatch between actual oil prices and volumes of its extraction with the scenario-based numbers; acceleration of the rates of investment project implementations as well as the behavior of foreign direct investors in respect of accrual of their returns. The absence of complete information about expected investments and economic effects may also lead to the change in the path of the current account forecast (Figure 13).

Figure 13. Current Account Dynamics, as % of GDP

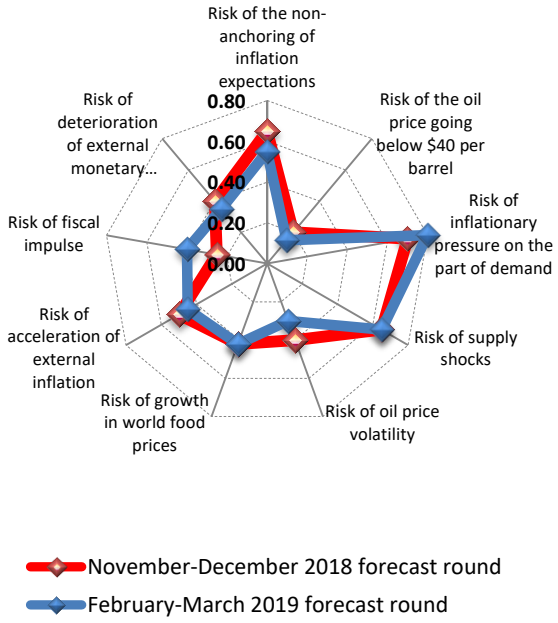


Source: NBRK's calculations

2.5 Risks in the Medium Term

As compared to the previous forecast round, the balance of risks in the medium-term forecast has not generally changed; however, a minor mitigation of external risks and escalation of internal risks is observed (Figure 14).

Figure 14. Risk Map Based on the Expert Judgment



Among internal factors, the risk of the increasing inflation pressure on the part of fiscal impulse has intensified. An intended increase of social aid to the low-income individuals and implementation of infrastructure projects represent the main source of the impulse. Moreover, the earlier planned measures of the Government to reduce the personal income tax for the low-paid employees, to ensure the 1.5 increase in minimal wages in 2019 as well as the positive dynamics in the consumer lending will be conductive to a possible in-run of the domestic demand.

Because of the persisting shortage of domestic production, risks of the supply shocks in certain commodity markets are still high. Besides, because of reduction in tariffs of natural monopolies in 2019 it may become possible that they will be increased again in 2020 because of the necessity of fixed capital investments. The existence of a positive difference between export prices and domestic prices of gasoline may become the reason for their growth in 2019-2020. Realization of these risks may result in the increased cost of consumer goods and intensification of inflation pressure.

The risk of non-anchoring of inflation expectations slightly decreased given stabilization of the exchange rate and actual deceleration of inflation. Nonetheless, the adaptive nature of inflation expectations and their dependence on the exchange rate movements of the tenge still represent risk factors for attaining a low and steady inflation rate in the medium- and long-term horizons.

Among external factors, the improved situation in the global oil market should be pointed out. Due to the concluded agreement to cut oil production by OPEC+ member countries, at the beginning of 2019 oil prices had stabilized at USD 60 per barrel, and the risk of a considerable fall in oil prices as well as the risk of their increased volatility have been mitigated. A revision of the global economy's growth as a result of finding a compromise between the USA and China in

their trade disputes may become a positive factor for the oil market.

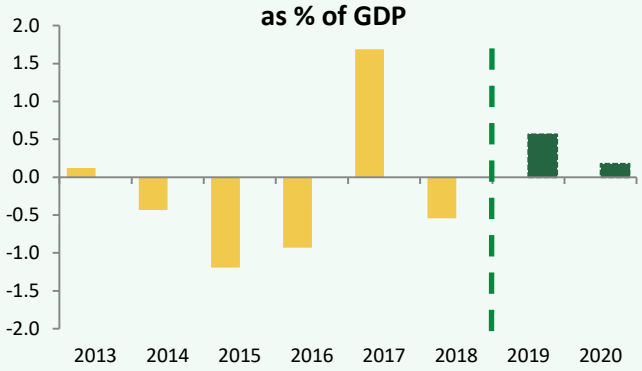
The probability of deterioration in external monetary conditions has also reduced owing to a more moderate posturing of the US Fed concerning the prospects of increasing its policy rate. Nonetheless, a tighter posturing in future can lead to the outflow of financial capitals from developing countries, to depreciation of their local currencies and acceleration of inflationary processes, including in Kazakhstan.

As compared to the previous forecast round, the risk assessment of the growth of world food prices has not changed; however, it remained high given the projected decline in the global stocks and the increased global consumption. Moreover, there is still a risk of import of external inflation given acceleration of inflation in Russia because of the consequences of the recent depreciation of the ruble and the increase in the VAT rate in 2019.

If a pessimistic scenario which assumes the fall of the oil price to USD 40 per barrel is realized, a pressure on the nominal exchange rate of the tenge will increase substantially and will significantly accelerate through the effect of the inflation pass-through, approaching the upper boundary of the 4-6% target band in 2019. In response to an external shock, the GDP growth rates will slow down to 2.4% in 2019. The National Bank's reaction could be the tightening of its monetary policy and the conditions in which the monetary policy is implemented would be changed from neutral to contracting ones.

Box 1. Assessment of the Fiscal Impulse

Diagram 1. Fiscal Impulse, as % of GDP



The assessment and forecast of the fiscal policy parameters play an important role in obtaining forecasts of economic activity indicators and inflationary processes in future. Forecasting a future pattern of fiscal indicators allows the National Bank to assess the impact of changes in the fiscal policy on the economic growth or pricing and to take this into account in its decision-making in the area of monetary policy.

With a view to assess the fiscal impulse, an international experience in forecasting the fiscal policy parameters and in determining the fiscal policy nature was studied and applied to Kazakhstan. At the initial stage of the fiscal impulse assessment it is necessary to make a forecast of the revenue and expenditure portions of the budget. Forecasts of tax revenues were designed based on three methods:

1) effective tax rate;
2) approach based on elasticity of the change in tax revenues from the tax base;
3) equation of bundle on the basis of a multiple regression.

In order to obtain such input forecast parameters as the tax base expressed through the nominal GDP models have been built to determine real rates of the GDP growth. In addition, a model was built to forecast the GDP deflator on the basis of a multiple regression with the use of oil prices in the tenge and the producer price index as explanatory variables.

As for the remaining items of the national budget's revenue portion as well as expenditures, the available data from the State Budget Code was used.

When forecasts were obtained, the operating budget balance was calculated which is determined as the difference between the budget revenues and expenditures. To eliminate the impact of decisions made in the prior periods, debt service expenses (interest expenses) have been excluded from the operating balance. The effect of economic activity cycles on the dynamics of the balance was also excluded. The final step in determining the fiscal policy stance is to assess the fiscal impulse.

The fiscal impulse represents the difference between operating balances in periods *t* and (*t*-1). If the operating balance at the time *t* is greater than the balance at the time (*t*-1), the fiscal impulse is negative in relation to the economic activity (contracting fiscal policy); and if the operating balance at the time *t* is smaller than its previous value – the fiscal impulse is positive (stimulating fiscal policy). In case if the balance is equal in periods *t* and *(t*-1), assuming their zero difference, there is no fiscal impulse.

More details of the outcomes of this study can be found in the Working Paper by Zhuzbayev A., "The System of Forecasting and Assessing Kazakhstan's Fiscal Policy Parameters on the Basis of International Experience", Economic Study of the National Bank of Kazakhstan, No.2019-1, January 2019 (https://nationalbank.kz/?docid=3546&switch=russian).

II. ANALYSIS OF THE CURRENT SITUATION

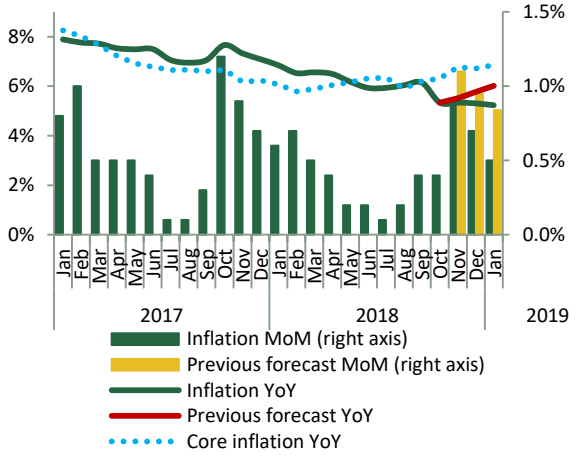
1. Pricing

1.1 Inflationary Processes

Based on performance in 2018, the inflation was building up below the projected numbers, being ensured by positive shocks in the market of fuel and lubricants as well as fruit and vegetable production. In addition, tariffs for certain types of paid services were reduced at the end of the year. As a consequence, the annual inflation rate at the end of 2018 had virtually reached the lower boundary of the target band.

Based on performance in 2018, the annual inflation had been within the National Bank's target band of 5-7%, accounting for 5.3% (Figure 15). In January 2019, it decelerated to 5.2%. The actual inflation appeared to be below the expected numbers of the "November-December 2018" forecast round.

Figure 15. Dynamics of Actual and Forecasted Inflation



Source: CS MNE RK, NBRK's forecasts

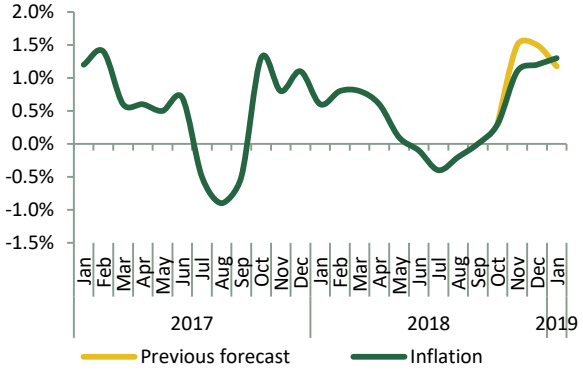
According to the National Bank's assessments, the inflation rate at the end of 2018 was expected to be closer to the upper boundary of the target band. This was connected with the anticipated price readjustment to depreciation of the exchange rate of the tenge which occurred in 2018 (during March-September 2018 the tenge depreciated against the US Dollar by 15%), given a significant share of imports in the consumer basket. So, according to the preliminary data produced by the CS MNE, in 2018 the share of imports in the consumption of foodstuffs and non-food products accounted for 23% and 59%, respectively.

The positive dynamics of actual inflation that was observed during last months of 2018 was related to positive shocks in the fruit and vegetable market and market of fuel and lubricants; in addition to that, the decline in prices of regulated services was observed.

The core inflation which does not take into account the change in prices of fruits, vegetables, regulated services and energy resources at the end of 2018 accounted for 6.7%, in January 2019 – 6.9%, having increased from 5.8% in February 2018.

In November and December 2018, the actual numbers of the food inflation turned to be below the forecast (Figure 16).

Figure 16. Dynamics of Actual and Forecasted Food Inflation, MoM

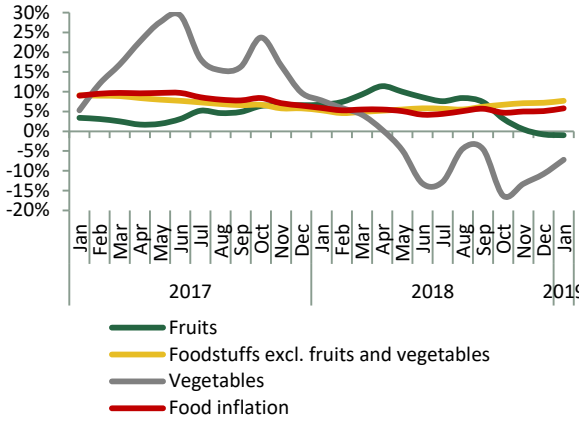


Source: CS MNE RK, NBRK's forecasts

A high supply, both on the part of imports and on the part of domestic production of vegetables and fruits caused by the growing gross output and crop productivity appeared to be a positive shock for the respective market. As a consequence, an untypical pattern in the price of fruits for the period was observed: in November 2018 they went down, and in December 2018 they increased insignificantly. As a whole, prices of fruit and vegetable production in 2018 had been at a lower level as compared to 2017,

with the annual decline accounting for 6.4% (Figure 17).

Figure 17. Dynamics of Food Inflation Indicators, YoY



Source: CS MNE RK

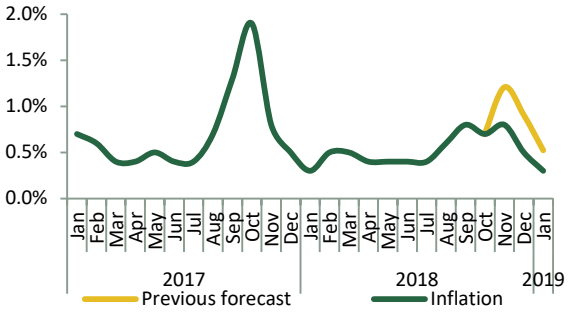
Prices of other foodstuffs showed growth (Figure 17). Among the growth factors of food prices, given a high percentage of consumption of domestically produced products, acceleration in the price surge in agriculture should be pointed out, the rise in prices in the manufacturing industry, in production of foodstuffs and tobacco products in particular.

In addition, reduction in the domestic production and in imports of certain foodstuffs, the change in the terms of trade and tariff barriers in certain commodity markets had a negative effect on the pricing in the country's consumer market.

The rise in prices of non-food products was also below the expected numbers (Figure 18).

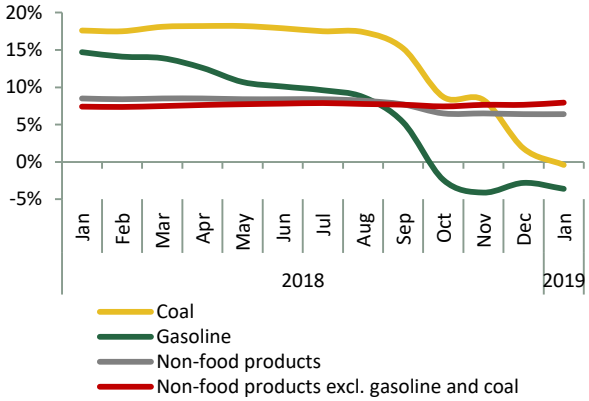
Given a high supply owing to the full load of three oil refineries after their modernization and limitations for import of fuel and lubricants from Russia imposed in August 2018, prices of gasoline preserved their downward trend (Figure 19).

Figure 18. Dynamics of Actual and Forecasted Non-Food Inflation, MoM



Source: CS MNE RK, NBRK's forecasts

Figure 19. Dynamics of Non-Food Inflation Indicators, YoY



Source: CS MNE RK, NBRK's calculations

In December 2018 and in January 2019, in the height of the heating season the drop in prices of coal was observed which could be related to implementation of administrative measures by the local executive authorities aimed to reduce release prices of coal.

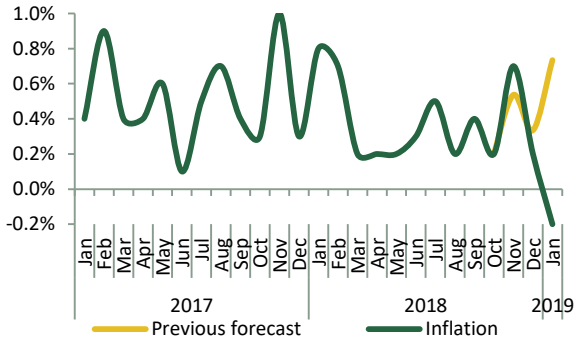
Prices of non-food products excluding gasoline and coal were generally demonstrating high growth rates. So, for example, in January 2019 the non-food inflation excluding gasoline and coal according to estimates accounted for 7.9% (versus January 2018), which is by 1.5 pp greater than the non-food inflation (Figure 19). In the structure of non-food products, the annual growth rates of prices of household goods (household appliances, textile, construction materials) were accelerating against the persisting excessive demand for this category of goods.

An additional factor had been the 8.9% increase in prices of imported non-food products in December 2018 (as compared to

the corresponding month of 2017). The main reasons for appreciation of imports in terms of price have been depreciation of the exchange rate of the tenge against the US Dollar and the Russian ruble as well as a high consumer demand against the growing real cash income.

During the last months of 2018, the dynamics of prices of services corresponded to the forecasts. A significant deviation occurred in January 2019 (Figure 20).

Figure 20. Dynamics of Actual and Forecasted Service Inflation, MoM



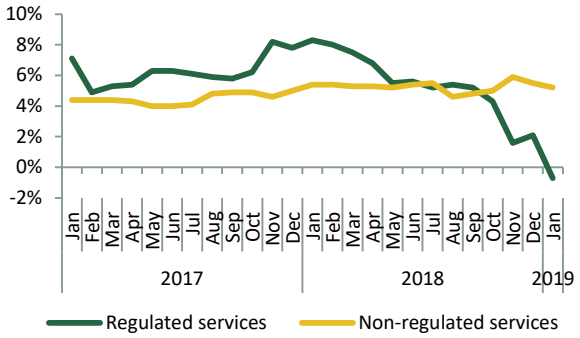
Source: CS MNE RK, NBRK's forecasts

In 2018, prices of paid services were growing at moderate pace not exceeding the headline inflation. The dynamics of prices in 2018 generally consorted to the historical pattern, and no significant shocks were observed. As a consequence, actual numbers of the service inflation in November-December 2018 were in line with the forecast.

In January 2019, the rise in tariffs was expected to accelerate, first of all for such services as heating, wastewater disposal, water supply, electricity, services related to the upkeep of residential buildings, and waste collection. However, measures taken by the Government to strengthen control over the pricing of natural monopolies lead to reduction in the cost of regulated services by 1.7% in January 2019 as compared to the previous month (by 0.7% as compared to January 2018). It should be noted that, as a rule, in January the price of regulated services is raised: the average monthly growth in price of regulated services from 2011 to 2018 made up 1.1%.

As a result, the annual rise in tariffs for paid services had generally slowed down from 4.5% to 3.4% (Figure 21).

Figure 21. Dynamics of Regulated and Non-Regulated Services, YoY



Source: CS MNE RK

At the same time, the growth rates of tariffs for other paid services slightly accelerated (Figure 21). Services which are sensible to movements in the exchange rate have demonstrated a certain increase in price (travel services, recreation/cultural services). Apart from those, the services of Internet access have appreciated in terms of price after a long period of stability; this was caused by the rise in costs in the communication sector.

1.2 Inflation Expectations

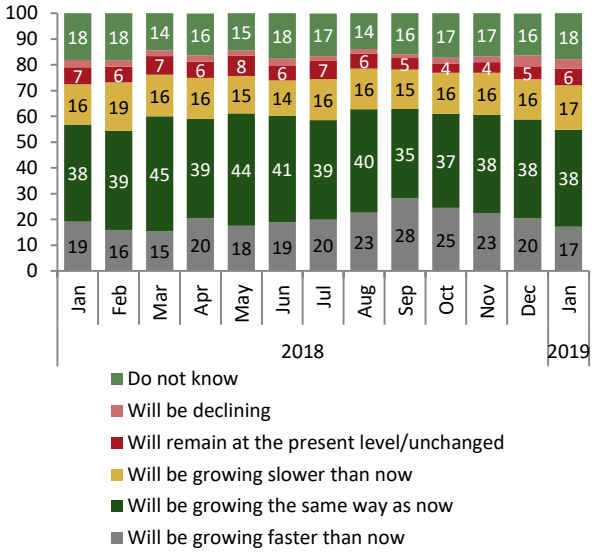
In recent months, the trend of decreasing inflation expectations of the population has been observed. The main factor for a gradual declining of expectations about the price growth was slowdown of the actual annual inflation. Perceived inflation, after its sustained growth from the second half of 2018, has slightly decelerated at the beginning of this year.

According to the survey of the population, there are changes in the structure of responses to the question about the expected inflation in one year. The percentage of respondents who anticipate a more rapid price growth in the next 12 months has significantly decreased after the peak in last September, accounting for 17% of the total number of respondents at the

end of January (Figure 22). Accordingly, responses of the population changed towards lower expectations about the price growth.

Figure 22. Assessment of the Price Growth in a Year

In your opinion, how much generally will prices of foodstuffs, non-food products and services change in the next 12 months?

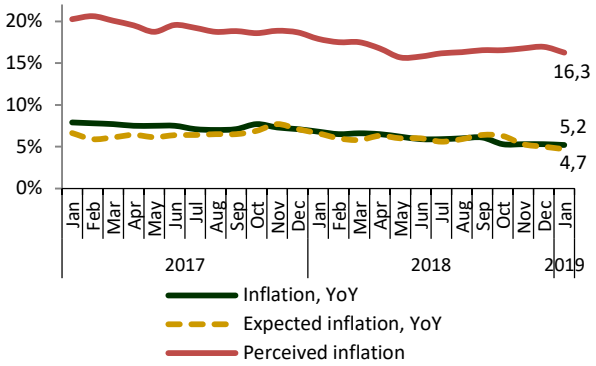


Source: GfK Kazakhstan

A quantitative assessment of the expected inflation in one year at the end of January 2019 accounted for 4.7% (Figure 22), being below the level of the actual annual inflation and having reached the minimum for all the time of the polls.

Perceived inflation , which is generated based on the subjective basket of goods of an individual decreased to 16.3% at the end of January. Despite a sustained growth in the second half of 2018, a long-term downward trend in the perceived inflation is persisting (Figure 23).

Figure 23. Expected and Perceived Inflation



Source: CS MNE RK, GfK Kazakhstan

2. Development of the Domestic Economy

2.1 Domestic Demand

In January-September 2018, a positive trend in the economic activity was observed amidst a favorable external pricing environment in the global energy markets. The GDP growth was accompanied by a positive contribution of all key components: net exports, consumer demand and investment demand.

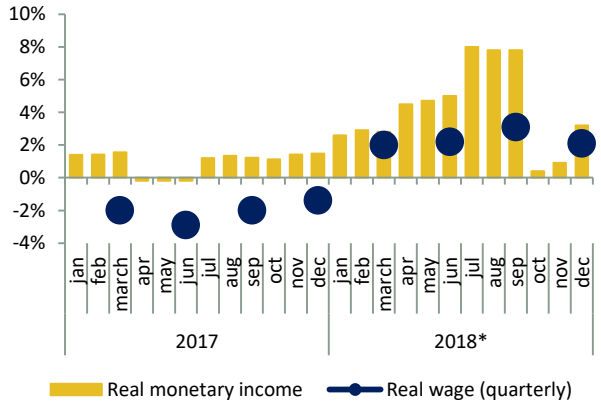
According to the National Bank's assessments, the growth of GDP by the final use method over 9 months of 2018 was expected to be at 4.0%. The actual GDP growth over the period accounted for 4.1%. There had been notable deviations in the assessment of consumer demand and gross formation (Table 2).

Accelerated increase in real cash income of the population resulted in a sizable expansion of consumer demand as compared to the forecast. Over 9 months, the consumer demand has grown by 5.1%, versus the forecast of 4%. The main reason for expansion in the consumer demand had been a swift growth of real cash income. Among the sources of income of the population the rise in wages was recorded virtually in all sectors of the economy as well as the increased retirement benefit payments in connection with the change in the methodology of calculation of the base retirement benefit (Figure 24).

Table 2. Actual and Forecasted GDP by the Final Consumption Method (GDP Decomposition Broken Down by Component Contributions, YoY)

	Forecast	Actual
	9 months of 2018	9 months of 2018
GDP	**4.1%**	**4.0%**
Household consumption	2%	2.6%
General government consumption	-1.4%	-1.7%
Gross formation	0.96%	0.72%
Exports	3.3%	3.4%
Imports	0.9%	-1.1%

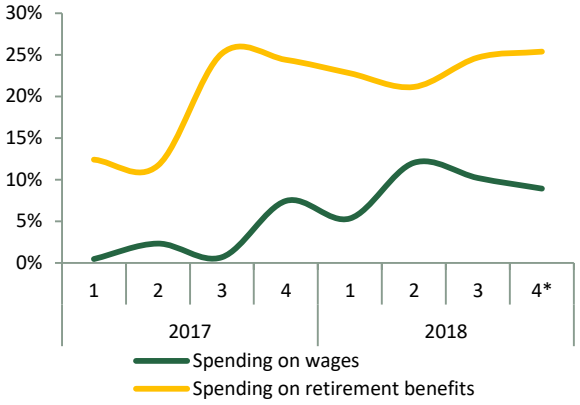
Figure 24. Real Cash Income and Real Wages, YoY



Source: CS MNE RK
**- preliminary data*
Real cash income; Real wages (quarterly)

Meantime, in the fourth quarter as compared to the previous quarter, the growth in real cash income slowed down. Such deceleration was occurring against a slower growth of the budget spending for wages in the public sector (Figure 25). As a result, real wages in the public administration and in healthcare sector in the fourth quarter went down. Also, real wages decreased in the construction sector and in the mining industry the growth rates slowed down.

Figure 25. Budget Spending for Retirement Benefits and Wages, YoY

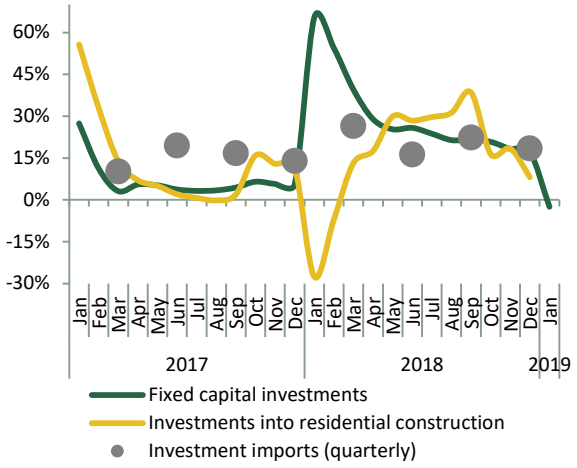


Source: Kazakhstan's Ministry of Finance
**-preliminary data*

Despite a high investment activity in the economy, over 9 months of 2018 the growth in gross formation accounted for 2.8% while the forecast for growth was 5%. In the structure of gross formation, inventory stocks contracted by 3% being the cause for a deceleration in gross formation. At the same time, fixed capital formation per se increased by 4.6%.

In the economy as a whole, in 2018 a high investment activity persisted (Figure 26) due to the growth of all components (construction works, costs related to purchases of equipment and machinery, other costs). Against this background, investment imports were growing, the volumes of construction works went up and throughout 2018 investments into residential construction have gradually recovered. The only investment activity that was slackening was that of the government authorities, namely the budget capital expenditures, with their growth accounting for 3% versus 24% at the end of 2017. The main reason for such considerable deceleration was implementation of the Government's plans regarding the reduction of budget deficit.

Figure 26. Investment Activity Performance, YoY, cumulative



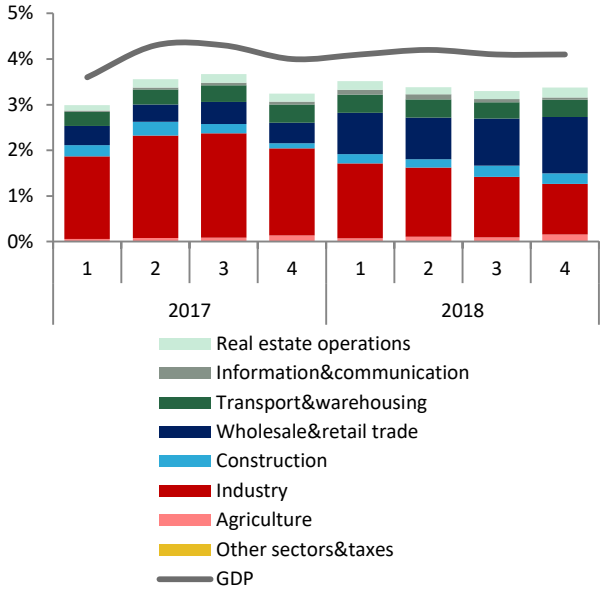
Source: CS MNE RK

At present, the investment activity in the economy generally became sluggish. At the end of January 2019, fixed capital investments went down by 2.5%. The domination of own funds as the source for financing investments in fixed capital in the real sector still represents the main problem. So, at the end of January 2019, the percentage of own funds of enterprises in the overall financing volume accounted for 93.7%, which is the historical maximum. Partly, reduction in fixed capital investments is associated with the high base effect of 2018 (in January 2018 the growth accounted for 65%). Currently, investment prjects are in progress in the mining industry (56% of total fixed capital investments), real estate operations (8%), transport (9%) and other sectors of the economy, except trade and construction.

2.2 Domestic Supply

Throughout 2018, the development of Kazakhstan's economy was characterized by the stable dynamics. So, the real GDP growth by the production method made up 4.1% (Figure 27).

Figure 27. GDP Decomposition. Contribution by Economic Sectors to the GDP Growth, YoY, cumulative



Source: CS MNE RK, NBRK's calculations

The National Bank forecasted the real GDP growth by the production method in 2018 to be at 3.9%, which is by 0.2 pp less than the actual. The excess of the actual number over the forecast is mainly related to underestimation of the growth rates in the construction and trade sectors (Table 3).

Table 3. Actual and Forecasted GDP by the Production Method (GDP Decomposition by Economic Sectors, YoY)

	Forecast	Actual*
	2018	2018
GDP	**3.9%**	**4.1%**
Mining industry	0.7%	0.6%
Manufacturing industry	0.5%	0.5%
Construction	0.1%	0.2%
Trade	1.0%	1.2%
Transport	0.4%	0.4%

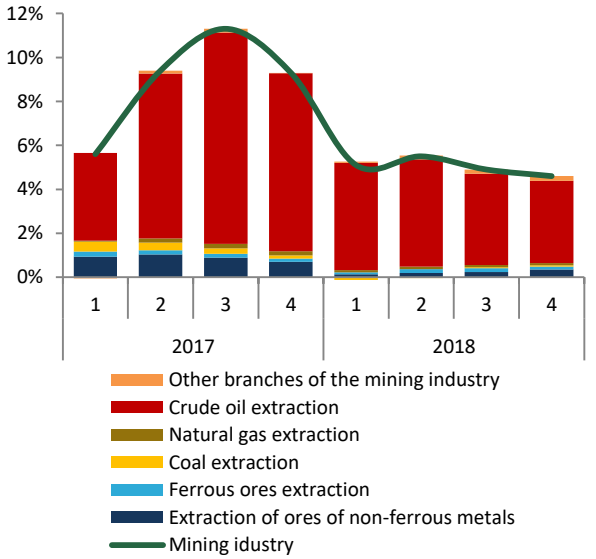
*Estimates of the CS MNE

The GDP growth in 2018 was accompanied by the increase both in the volumes of goods production by 4.1% and of services production – by 4.0%.

The main contribution to the growth was made by branches of the industry owing to extraction of mineral resources and their processing as well as by wholesale and retail trade, transport and real estate operations.

The mining industry in 2018 was traditionally serving as the "engine" of Kazakhstan's economy (Figure 25). Meantime, the National Bank's assessments regarding the sector's growth were more positive as compared to the actual number: 5.2% versus 4.6%. The main reason for divergence of the forecast had been the reduction in extraction volumes of gas condensate at the "Karachaganak Petroleum Operating" plants because of a high gas condensate factor and a shutdown of wells due to an increased content of oilfield water. Nonetheless, actual overfulfillment of oil extraction plan at the country's large oilfields as well as stable growth rates of extraction of natural gas, ferrous ore and ores of non-ferrous metals served as positive factors for the sector's development.

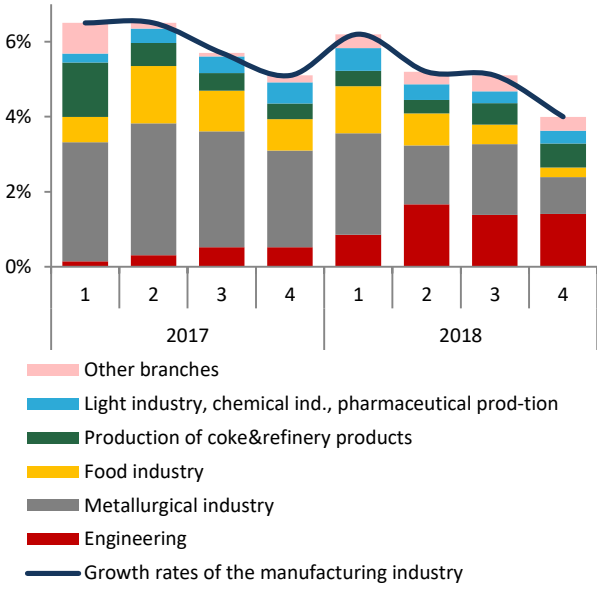
Figure 28. Decomposition of the Mining Industry. Composition by Sectors to the Growth, YoY, cumulative



Source: CS MNE RK, NBRK's calculations

The manufacturing industry in 2018 was demonstrating a gradual deceleration of production (Figure 29). The actual growth in the sector was by 4.0% below the National Bank's assessments. The largest slowdown occurred in the fourth quarter, which was caused by a downturn in production of interim goods, namely in the metallurgical industry. The 1.7% decline in production in the ferrous metallurgy, including because of the reduced production of cast iron (by 16%) and steel (by 18%) by the "ArsellorMittal Temirtau" JSC, had been the main factor for deceleration in the metallurgical industry.

Figure 29. Decomposition of the Manufacturing Industry. Contribution to the Growth by Sectors, YoY



Source: CS MNE RK, NBRK's calculations

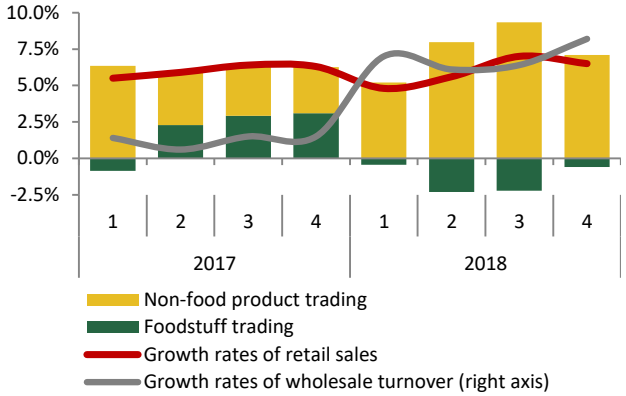
During 2018, production in the construction sector increased by 4.1%, having significantly exceeded the National Bank's assessments – by 2.3 pp. This is explained by the growth in construction works for modernization and reconstruction of Shymkent oil refinery.

The uprise in maintenance works is driven by the reconstruction of industrial facilities, engineering networks and works related to modernization of oil refineries. Among work-in-progress construction projects, the largest portion is comprised by transport and warehousing facilities, industrial facilities and real estate that are promoted by implementation of the government housing programs and infrastructure projects.

A more positive development of trade as compared to the National Bank's assessments (the growth of 7.6%) is determined by the growth in wholesale and

retail trade by 8.2% and 6.5%, respectively (Figure 30).

Figure 30. Growth Structure of Retail Sales and Growth Rates of Wholesale Turnover, YoY year-to-date total



Source: CS MNE RK, NBRK's calculations

The upturn in consumer demand as a result of the increased real cash income of the population made a positive contribution to the growth in retail sales – sales of non-food products went up significantly (the growth of 11.2%). However, sales of foodstuffs have decreased by 1.6%.

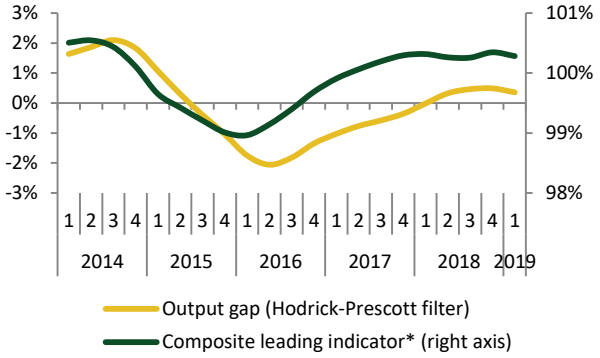
The growth in wholesale turnover is determined by the increased wholesales of foodstuffs.

Amidst the positive dynamics of ramp-up of trade and a stable external demand, in 2018 the growth in the sector of "transport and warehousing" accounted for 4.6% being completely in line with the National Bank's assessments. A significant contribution to the growth in the sector was made by cargo transportations by railways (8.0%), by pipeline transport (6.9%) and motor transport (6.7%).

The stable dynamics of Kazakhstan's real sector development is also proved by the outcomes of enterprise polls which are conducted by the National Bank on a quarterly basis. A favorable environment in the global oil market as well as the recovering domestic consumption amidst the growth in real cash income had a positive effect on the demand for final products. The interviewed enterprises (in the industry, agriculture, transport, trade, and construction) note the increased affordability of loans; an average interest rate on loans in the tenge was reduced, and the percentage of enterprises which were rejected a loan also decreased. The percentage of enterprises which obtained a loan increased.

At the same time, in 2018 the composite leading indicator, which summarizes the assessment of the existing situation by enterprises participating in the National Bank's surveys, just as the output gap, stayed in the weakly positive zone. This is an indication of persisting moderate growth rates of the business activity in the real sector and the existence of a minor pro-inflation pressure in the economy (Figure 31).

Figure 31. Behavior of the Composite Leading Indicator and Output Gap



Source: CS MNE, NBRK, NBRK's calculations

** the calculation of a composite leading indicator was revised based on the OECD methodology*

Box 2. Kazakhstan's GDP and GNI

Aggregate income of any country, except for the domestic production performance, is also dependent on earnings of economic entities received from abroad or disbursed broad by such entities. In the national accounts system, the gross national income (GNI) is the macroeconomic indicator that records these earnings. It is calculated as the sum of the gross domestic product (GDP) and the balance on primary income of a country's balance of payments. GNI may be greater than GDP, when revenues from the use of financial and material resources of a country exceed the country's expenses related to their provision (Diagram 2). GNI may be smaller than GDP, especially in developing countries including in Kazakhstan; this is related to the negative dynamics of the balance on primary income. Since the year 2000, GNI of Kazakhstan has always been lower than GDP.

Diagram 2. Dynamics of GDP, GNI and the balance on primary income (in average annual prices of 2005)

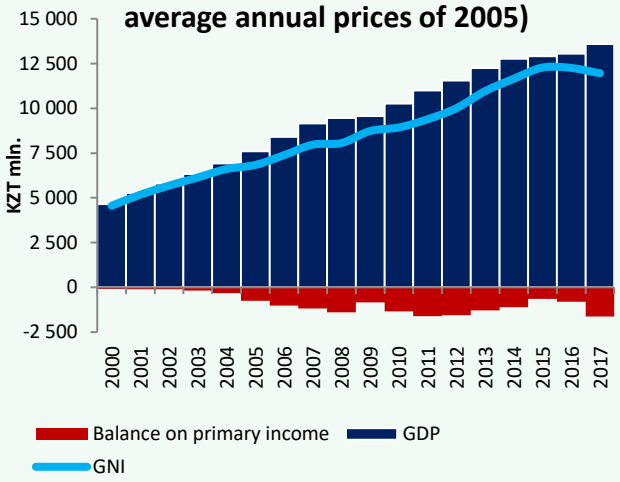
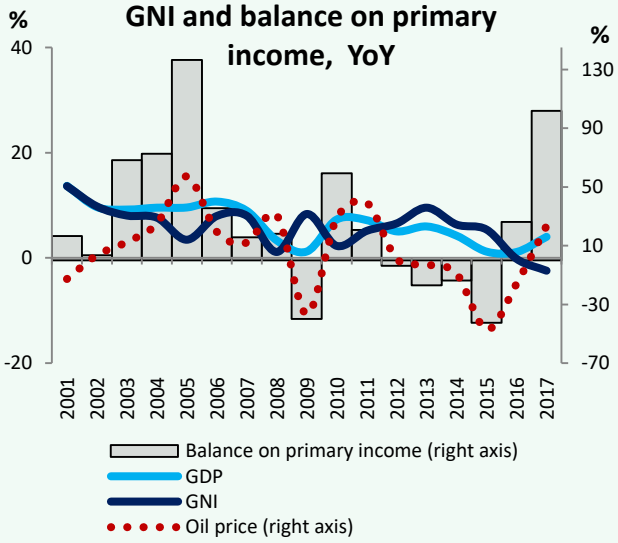


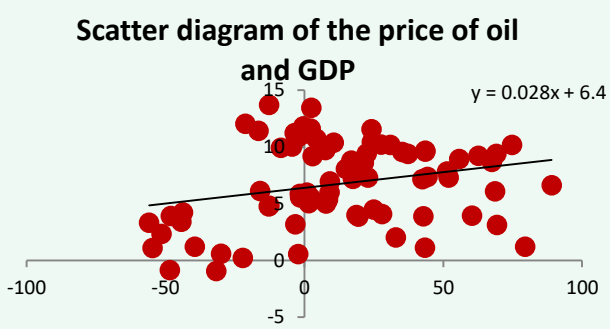
Diagram 3. Growth rates of GDP, GNI and balance on primary income, YoY

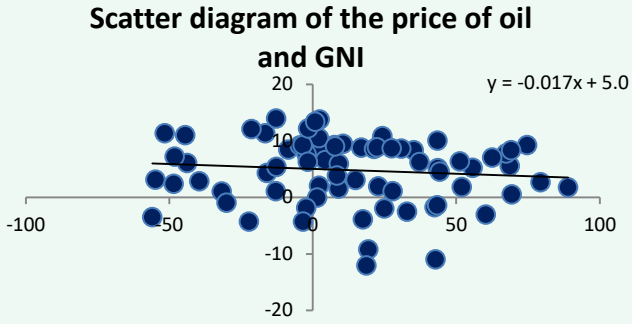


If one looks at the historical dynamics since 2000, the growth rates of GNI were outstripping those of GDP only in the periods when the oil price was falling (Diagram 3); that is, one may assume an existence of a trade-off between the growth rates of GNI and oil prices. It was during such periods that the balance on primary income was also shrinking as a result of the decreasing income payable. Such situation is logical given that Kazakhstan is a net exporter of oil and the rise in the price of oil leads, on the one hand, to the growth in exports but, on the other hand, to the outflow of payouts to foreign investors (a correlation between the price of oil and the balance on primary income is equal to 0.81).

If one looks at the scatter diagram, one could see an inverse relationship between GNI and the price of oil. Contrary to Kazakhstan's GDP which is growing with the rise in the price of oil, GNI is going down when the price of oil is increasing (Diagram 4). Along with that, elasticity of GDP to the change in the price of oil is higher than in case of GNI, that is if the price of oil is going up GDP will be increasing faster than GNI will be decreasing.

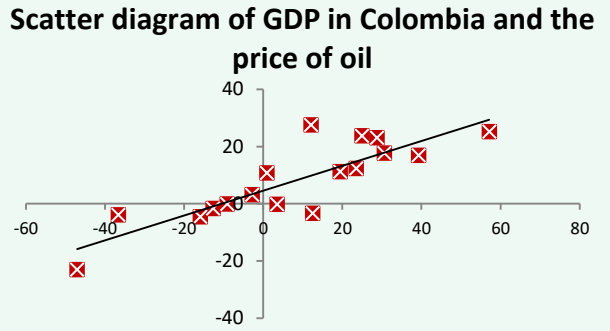
Diagram 4

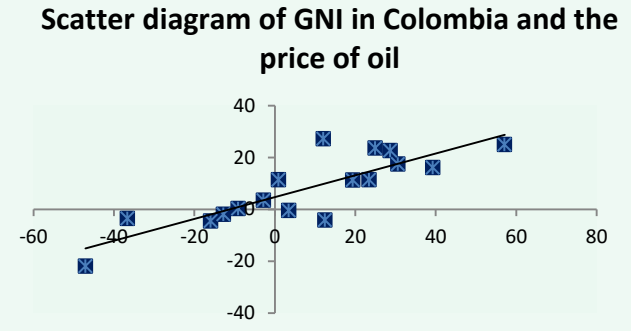


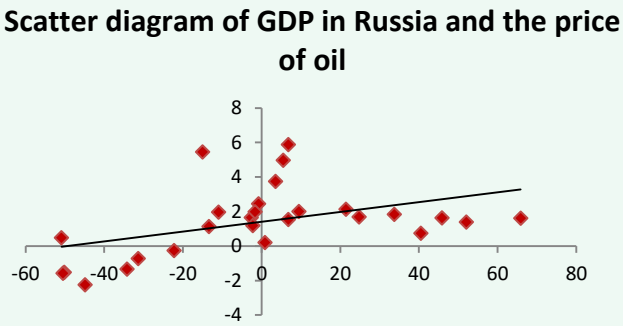


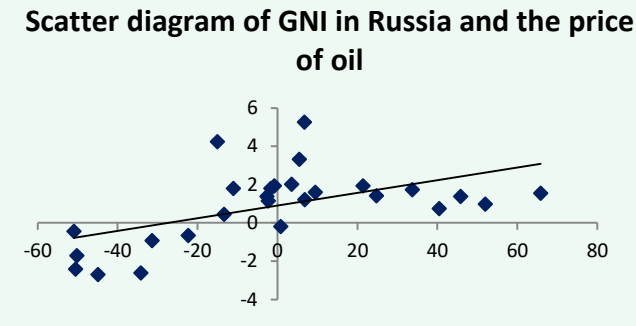
Oil exporting countries such as Russia and Colombia also have a negative balance on primary income and, consequently, GDP in these countries must be larger than GNI. As opposed to Kazakhstan where the correlation is negative, in Russia and in Colombia one can see an obvious positive correlation between GNI and the price of oil (Diagram 5). This can be explained by a large balance on primary income in Kazakhstan. For instance, in Columbia and in Russia the balance on primary income to GDP in the reviewed period (from 2000) has been fluctuating between 1-4%; as a consequence, GNI in these countries is smaller than GDP and therefore both indicators are positively dependent on the price of oil. In Kazakhstan, this number was fluctuating from 3% in 2000s and in certain periods it reached 15%; at the end of 2017 this ratio was 12%.

Diagram 5









In the countries where the resource-based structure of economy is dominating and which have a large negative balance on primary income, like Kazakhstan, the gap between GDP and GNI is significant. In other words, although profits generated by foreign investors within the country are taken into account in the calculation of GDP, they do not improve the well-being of people in the country. This is the main difference between GDP and GNI as macroeconomic variables. That is, although GDP and GNI are interrelated indicators they are not interchangeable. GDP takes into account the performance of economic entities irrespective of the country to which the used production factor belongs whereas GNI differs in that a part of GNI is produced abroad and a part of production which is created in the country uses resources that belong to other countries.

Source: CS MNE, Central Bank of Russia, Central Bank of Colombia, Rosstat, The Government of Colombia's DANE, NBRK's calculations

2.3 Labor Market

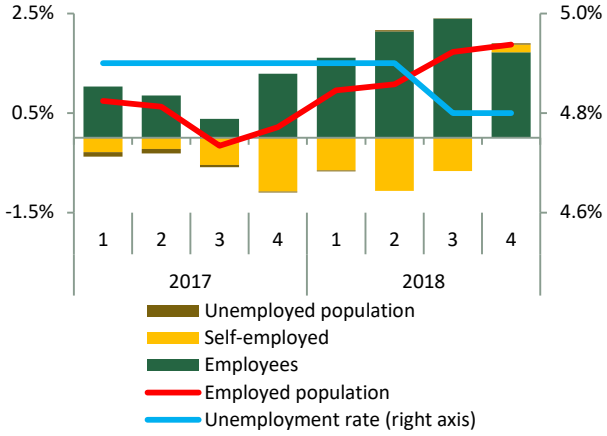
The continuing growth in the business activity supports a stable development of the labor market as well as helps to increase real wages.

In the fourth quarter, the number of employed population was growing; both the number of employees and the number of self-employed individuals increased in the structure of employed population. The number of employees continues to grow in the public sector. At the same time, among branches of the real sector, the largest contribution to the growth in employees was made by such sectors as “transport”, “trade” and “the manufacturing industry”. The increase in the number of self-employed population has been observed for the first time since 2011, especially in the sectors with the largest growth in employees that is in trade, transport and the manufacturing industry. The increase in self-employed individuals is accompanied by the growth in the numbers of the productively employed population whereas the number of unproductively employed population continues to go down.

The number of the unemployed population slightly increased. Given the growth in both the unemployed individuals and in the employed population, the labor force increased by 1.8%. At the same time, the growth rates of the employed population are outstripping the growth rates of the unemployed population (Figure 32). In this environment, the unemployment rate remained at 4.8%. Having said that, a large percentage of the unemployed is observed among individuals aged 25-34.

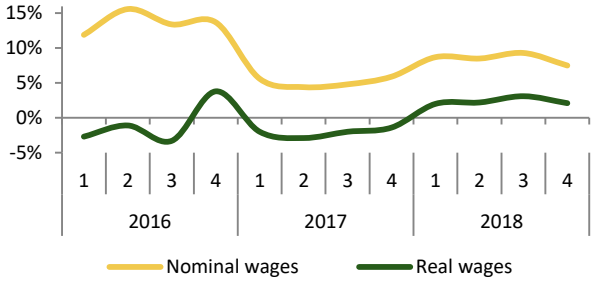
Real wages in 2018 began to grow (Figure 33). In the industry-based breakdown, the growth in real wages was observed in activities in the area of administrative and ancillary service (by 16.4%), in financial activities (by 9.6%), trade (by 3.2%), transport (by 5%), and in the manufacturing industry (by 6%).

Figure 32. Unemployment Rate, Structure of the Labor Force Growth, YoY



Source: CS MNE RK

Figure 33. Dynamics of Nominal and Real Wages, YoY



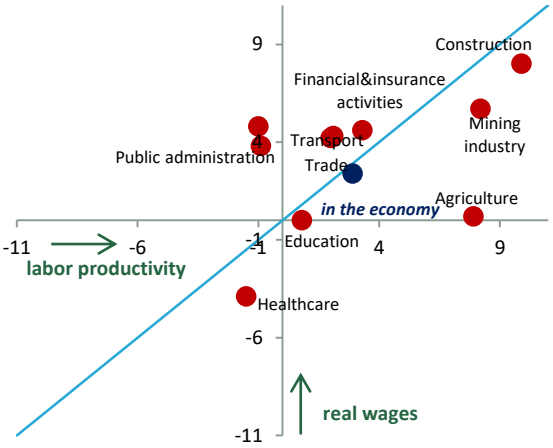
Source: CS MNE RK

Over 9 months of 2018, the growth in labor productivity has slowed down and accounted for 2.9%. This happened because of a dramatic slowdown in the services production sector (to 0.3%), where the reduction in productivity was observed in the real estate operations (by 25.6%), accommodation and catering services (by 11%) and activities in the area of administrative and ancillary services (by 7%). The growth in labor productivity in the economy as a whole was supported by the persisting significant increase in productivity in the sectors of goods production (by 7.6%). In the industry, the labor productivity has grown owing to the increased productivity in the mining industry (by 8.2%), while the labor productivity in the manufacturing industry decreased by 1%.

In the economy as a whole, the growth in labor productivity is outrunning the growth rates of real wages (Figure 34). Particularly,

the outstripping growth rates of labor productivity as compared to the growth rates of real wages are typical for the mining industry, agriculture, construction and education. However, in construction and agriculture such situation is observed not only as a result of the growth in the gross value added but also because of a long-lasting reduction in the employed population in these sectors. Therefore, given a non-proportional growth in labor productivity and wages in the economy, except for some sectors, one may assert that there are pro-inflation risks on the producer side.

Figure 34. Labor Productivity and Real Wages by Types of Economic Activities, YoY, over 9 months of 2018

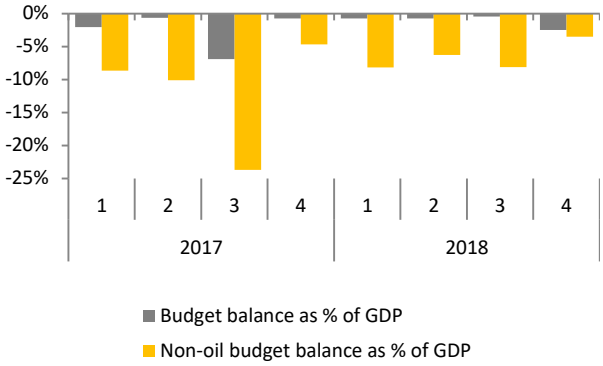


Source: CS MNE RK

3. Fiscal Policy

During 2018, the national budget revenues were gradually decreasing while the budget spending was growing. As a result, the budget deficit was successively expanding amounting to KZT 474.6 bln. or 2.5% of GDP in the fourth quarter (Figure 35).

Figure 35. Overall Balance and Non-Oil Balance of the National Budget



Source: Kazakhstan's Ministry of Finance

During 2018, non-oil budget balance remained high. To a large extent, this was related to moderate dynamics of the national budget revenues excluding transfers from the National Fund. In 2018, transfers from the National Fund to the national budget amounted to KZT 2.6 trln. (or 29.6% of total budget revenues), 93.6% of which was received during the first nine months of 2018.

In the fourth quarter, the national budget revenues decreased both as compared to the same period of 2017 (by 13.1%) and as compared to the previous quarter (by 22.2%), amounting to KZT 2.0 trln. or 10.4% of GDP. The main reason for reduction in revenues had been the decreased volumes of the guaranteed transfer from the National Fund.

At the same time, non-oil proceeds in the fourth quarter increased by 6.9% (as compared to the same period of 2017). The tax revenues which increased by 11.3% (Figure 36) have traditionally been the main source of the national budget revenues. The growth was secured by the increase in VAT and corporate income tax given the increased production of goods and services in the key sectors of the economy and the rise in prices of major export positions.

Box 3. The Impact of the Increase in Minimal Wages (MWs) on the Average Monthly Wage

In Kazakhstan, according to the poll conducted by the CS MNE in April 2018, 9.4% of employees had salaries and wages below 42 500 tenge (Diagram 6). Of which, the largest number of employees with such wages were in the sectors of education (19%), agriculture (14%), arts, recreation and leisure (15%), activities in the area of administrative and ancillary service (12%), public administration (9%), and healthcare (9%). The smallest share of low-paid employees was in the industry, financial and insurance activities, construction, transport and communication.

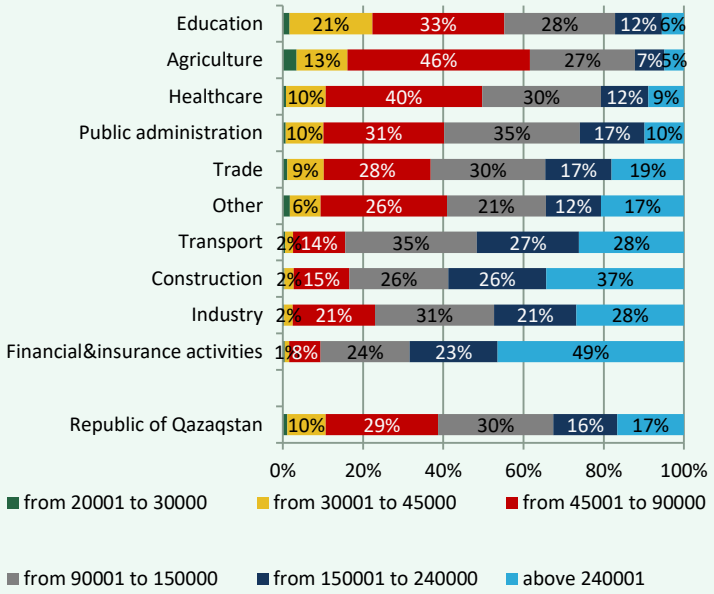
Other things being equal, the 1.5 rise in MWs from 1 January 2019, according to the National Bank's assessments, will result in the two-fold increase in the low-paid employee payroll fund. At present, the share of the low-paid employee payroll fund accounts for only 1.2% of the overall employee payroll fund. Therefore, a two-fold increase of the low-paid employee payroll fund only gives a 3.8% buildup of the overall employee payroll fund. The largest growth in the payroll fund will occur in such sectors as education (by 11%), agriculture (by 7.6%), arts and entertainment (by 7%), healthcare (by 5.4%) and public administration (by 4.4%). In other sectors, given a small category of low-paid employees, the growth will account for about 1%.

As a result of the MWs growth, the average monthly nominal wages of employees working at large and medium-sized enterprises, other things being equal, will rise by 5%. The largest growth in wages will be typical for such sectors as education (by 14%), agriculture (by 10%), arts and entertainment (by 9%), healthcare (by 7%), public administration and defense (by 6%) and activities in the area of administrative and ancillary service (by 5%).

As for the regional breakdown, the largest number of low-paid employees belongs to such regions as South Kazakhstan (15%), Zhambyl (15%), Almaty (13%), North Kazakhstan (12%), West Kazakhstan (12%), Akmola (11%) and Kostanai (10%) regions. Accordingly, a maximum positive effect from the increase in the MWs will be observed in those particular regions.

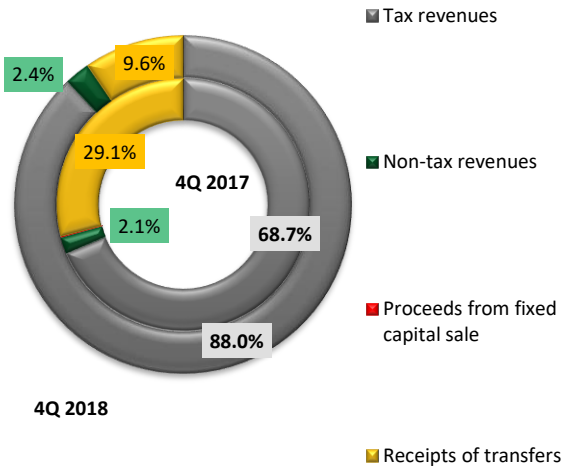
Diagram 6

Employee distribution based on accrued wages and by types of economic activities (according to the survey conducted by the CS MNE in April 2018)



Source: CS MNE, NBRK's calculations

Figure 36. Structure of the National Budget Revenues



Source: Kazakhstan's Ministry of Finance

The national budget expenditures increased by 4.2% as compared to the fourth quarter of 2017 and amounted to KZT 2.5 trln. (13.1% of GDP). The main contribution to the growth in expenditures was made by expenses related to the social aid and social security (the growth of 21.5%), healthcare (by 13.3%) and public order, legal, judicial, penal services (by 7.1%).

4.Financial Market

4.1 Money Market

Monetary conditions are still neutral, which helps to stabilize quotations in the money market and foreign exchange market. Liquidity surplus continues to have a downward impact on the money market rates. Nonetheless, the National Bank's operations ensure that the operating target is kept within the base rate band. In prior months, there was a short-term extension of spreads between interest rates in various segments of the money market amidst an increased demand for short-term liquidity in foreign currency.

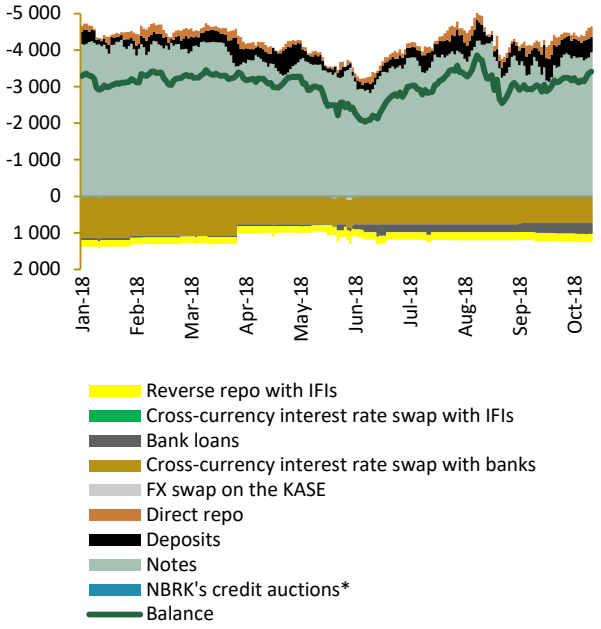
Given realization of risks highlighted during prior decisions regarding the base rate which backfired on the domestic financial market by the significantly increased volatility of quotations, on 15 October 2018 the National Bank made the decision to increase the base rate. Later on, the base rate was preserved at the existing level twice (4 December 2018 and 14 January 2019).

Monetary conditions are still neutral. The real interest rate, based on the baseline scenario, was kept at 3% at the end of 2018, being in line with the long-term neutral interest rate for Kazakhstan's economy.

The situation in the money market is determined by liquidity surplus. In order to curb inflation pressure on the part of excess liquidity, the National Bank conducts operations of liquidity withdrawal. The bulk of liquidity is withdrawn via short-term notes; the demand for such notes had increased at the end of 2018 due to their increased yield and in January 2019 – as a result of an inflow of temporarily available budget resources to banks (Figure 37).

In the fourth quarter, the National Bank continued to take measures to approximate the yields on short-term notes to the level of the base rate. In this context, the demand for short-term notes on the part of all market participants continued to grow, being also furthered by the increase in the base rate. Interest rates on short-term notes in October 2018 – February 2019 were setting within the range of 8.40-9.12%.

Figure 37. NBRK's Operations in the Domestic Market (Exposure, KZT bln.)

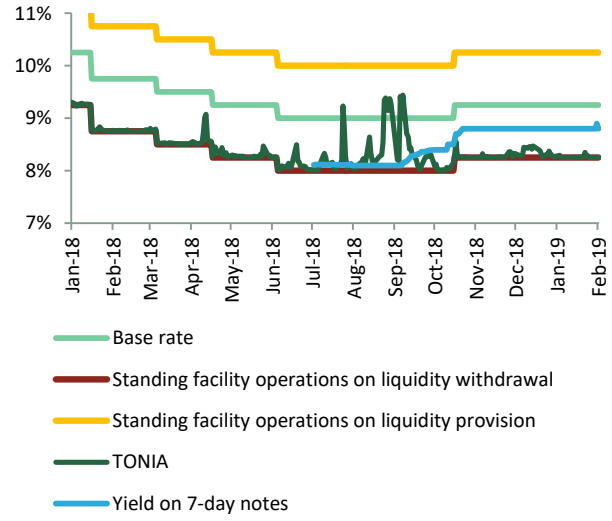


Source: NBRK

** NBRK's securities buy/sell back auction*

The TONIA rate, after the increase in the base rate, had stabilized and during the quarter was setting primarily closer to the lower boundary of the interest rate band (Figure 38). The December increase in interest rates was associated with the growth in the demand for liquidity on the part of banks.

Figure 38. Base Rate, TONIA and the Yield on 7-Day Short-Term Notes.

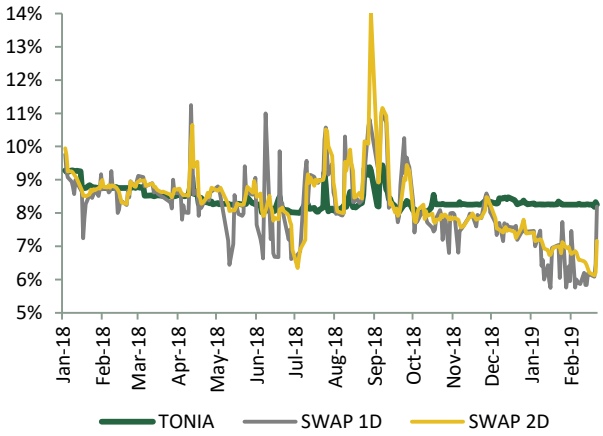


Source: NBRK, KASE

Yield on 7-day notes

Interest rates in the swap market were setting under the impact of the demand for foreign currency liquidity on the part of certain participants. Interest rates were closer to the lower "targeted" boundary and the spread between the TONIA rate and SWAP 1D rates was observed (the maximum spread reached 250 bp). At the end of February, the situation normalized as a result of measures taken by the National Bank to increase the banking sector's financial soundness (Figure 39).

Figure 39. Dynamics of the Money Market Rates



Source: KASE

Thus, the base rate impulse in all segments of the money market is transmitted at comparable levels (close to the lower boundary of the interest rate band).

With a view to make the policy implemented by the National Bank more effective, from 18 February 2019 the Bank started to conduct deposit auctions which replaced the auctions of short-term notes with 7-day maturities. Also, the Bank stopped attracting 7-day deposits of the standing deposit facility. Such changes were aimed to increase effectiveness of the interest rate channel of the National Bank's monetary policy transmission mechanism.

4.2 Foreign Exchange Market

At the end of 2018, the foreign exchange market was demonstrating a tendency for the tenge depreciation amidst the declining world oil prices and

depreciation of currencies of Kazakhstan's trading partners.

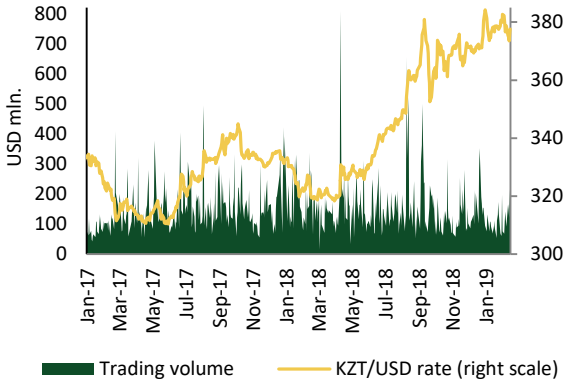
In the fourth quarter, the price of oil decreased by 35.0%, and the Russian ruble depreciated by 6.3%.

The movements of the tenge exchange rate were also affected by the decision on the base rate and by the change in the demand for foreign currency from certain banks including the period of tax payments to the budget. Additionally, increase of the base rate to 9.25% in mid-October contributed to some appreciation of the tenge. A similar effect was brought about by the onset of the tax week in November.

A high demand for foreign currency from certain banks in the environment of low supply served as an additional factor for the tenge depreciation at the end of December 2018.

During the quarter, the exchange rate of the tenge was within the range of 360.65 KZT and 384.2 KZT per 1 US Dollar. The difference between the maximum and the minimum values was reaching 6.5% on average during the quarter. At the end of the quarter, the tenge exchange rate against the US Dollar was 384.2 KZT per 1 USD, depreciated by 5.8% (Figure 40).

Figure 40. Exchange Rate Movements and Trading Volume in the Foreign Exchange Market



Source: NBRK

The National Bank's net participation in the domestic foreign exchange market was equal to zero. The overall trading volume of USD/KZT currency pair dropped by 23.9% and amounted to USD USD 8.1 bln. (in the third quarter – USD 10.6 bln.). Reduction in trading volume was associated with the decreased volatility in foreign markets.

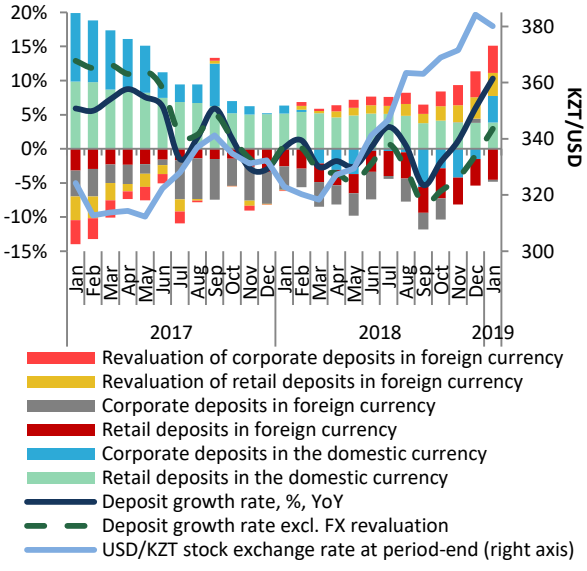
From the beginning of 2019, the situation in the foreign exchange market was stable. As of February 15, the exchange rate of the tenge was 377.62 KZT per 1 USD, appreciated by 1.7% since the beginning of the year. The dynamics of the tenge exchange rate was determined by appreciation of the Russian ruble (as of February 15 appreciation accounted for 4.2% since the beginning of the year) and by the growth of world oil prices (since the beginning of the year – 23.1%).

4.3 Deposit Market

Deposits placed with depository institutions continue to grow. Deposits of the individuals in the tenge and revaluation of foreign currency deposits still represent key growth factors.

In January 2019, deposits increased by 10.3% in annual terms or by KZT 1.8 trln., amounting to KZT 19.2 trln. (Figure 41).

Figure 41. Contribution by Components to the Growth in the Deposit Volume



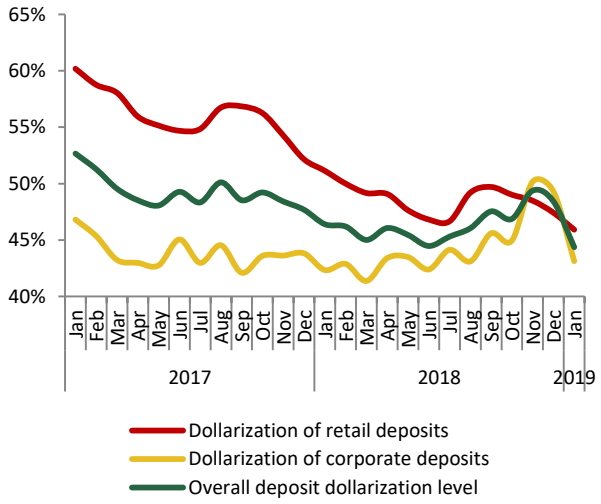
Source: NBRK

Retail deposits in the tenge continue to grow slowly (at end-January 2019 they amounted to KZT 4.6 trln.). Their contribution to the increase in total deposits, despite their gradual reduction, remains positive.

In turn, foreign currency deposits of the individuals continue to go down (KZT 3.9 trln. at end-January 2019). Their contribution to the increase in total deposits remains negative. In other words, the retail depositors continue to withdraw foreign currency deposits and "rolls over" to the tenge deposits.

Dollarization in the retail segment of the deposit market keeps having a steady downward trend. At end-January, it reached 45.9% (Figure 42).

Figure 42. Deposit Dollarization



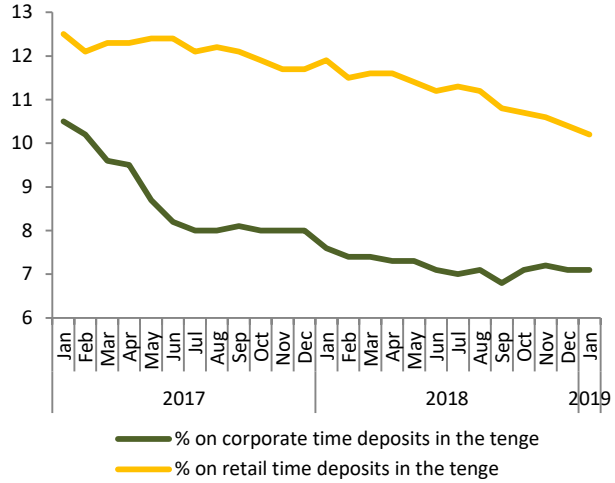
Source: NBRK's calculations

In the corporate segment of the deposit market (KZT 6.1 trln. at end-January 2019) the growth in the tenge deposits was observed owing to transferrable deposits (this is associated with capitalization of the Kazakhstan Sustainability Fund for rehabilitation of Tsesnabank). In general, over the past year, except January 2019, there was a negative contribution on the part of deposits in the tenge of enterprises.

In January 2019, dollarization in the corporate segment decreased to 43.1% against the growth in corporate transferrable deposits in the tenge. Foreign currency revaluation made a significantly larger contribution than deposits in the tenge. Given depreciation of the stock exchange rate by 17.7% over year (from KZT 322.90 to KZT 380.06 per 1 USD), revaluation of total foreign currency deposits ensured the ¾ of the deposit market growth. The deposit market growth accounted for 2.9%, excluding the effect of foreign currency revaluation. The overall dollarization level at end-January 2019 was 44.4%.

Interest rate on time deposits of enterprises in the tenge started to gradually grow after reaching its minimum over the recent years (6.8% in September 2018) following the base rate increase in October 2018 (to 9.25%). In the recent months interest rates have stabilized at 7.1-7.2% (Figure 43).

Figure 43. Interest Rates on Time Deposits by Entities and Currencies



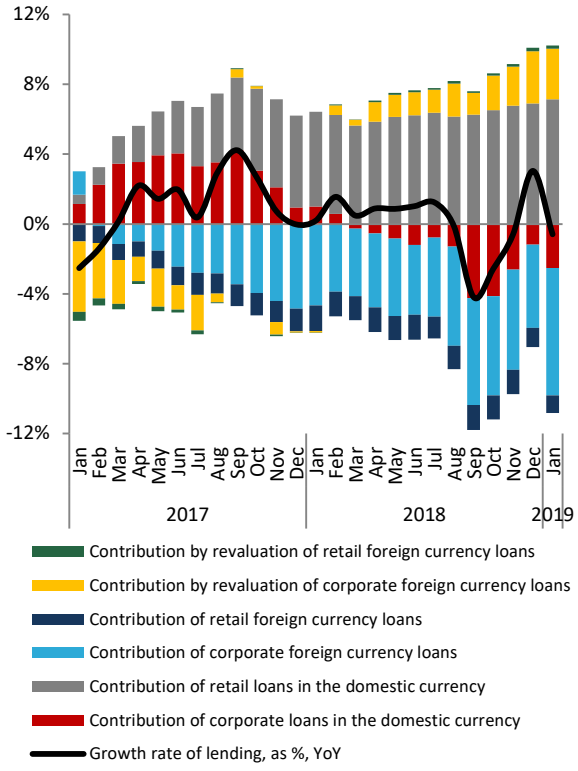
Source: NBRK

4.4 Credit Market

Bank credits to the economy have moved from the negative zone to the positive growth zone in September-December 2018, however, in January 2019 the rise gave way to the fall.

After the 3% growth of the bank loan portfolio in the fourth quarter, in January 2019 there was a decline of 0.6% (Figure 44). It was driven by the measures of rehabilitation and a partial write off of Tsesnabank's loan portfolio. The resulting volume of bank credits to the economy was KZT 12.5 trln.

Figure 44. Contribution to the Loan Growth by Components

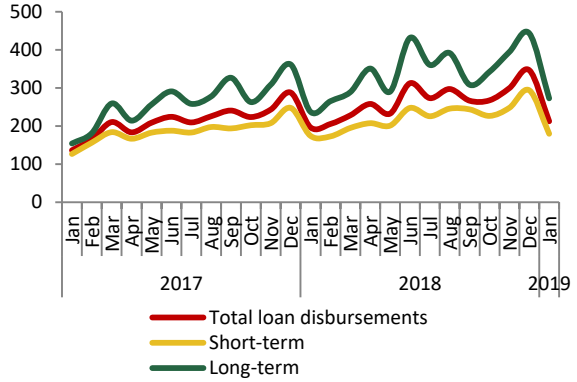


Source: NBRK
Growth rate of lending, as %, YoY

The retail segment in the tenge still represents a positive factor for the growth in credits to the economy. Over the year, retail credits in the tenge have increased by 21.1% or by KZT 897 bln., reaching KZT 5.2 trln., and their share in the overall loan volume went up by 7.4 pp to a historically maximum level of 41.3% in the structure of total credits to the economy.

The volume of enterprise loans with banks decreased given rehabilitation of Tsesnabank and liquidation of three banks in 2018. In annual terms, the corporate segment contracted by 10.9% or by KZT 871 bln. to KZT 7.2 trln. Despite the fact that a physical volume of corporate foreign currency loans continues to follow a downward trend, their foreign currency revaluation makes a positive contribution to the loan growth amidst depreciation of the exchange rate. This is related to the fact that foreign currency loans of enterprises account for about 1/5 of total bank loans. However, a negative effect from contraction in corporate foreign currency lending (-7.3pp) overweighs a positive effect from the exchange rate revaluation (+2.9pp). The annual growth of the total bank loan portfolio, excluding the banks whose licenses were revoked or suspended as well as those which undergo restructuring, accounted for 11.4% in January 2019. Provision of new loans is a proof of a gradual growth of the lending activity (Figure 45).

Figure 45. Provision of New Loans, Jan.2009 = 100%



Source: NBRK

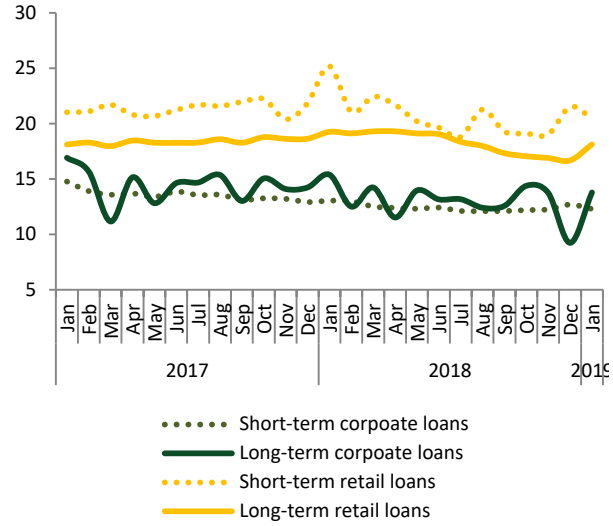
According to the poll conducted among banks, in the fourth quarter the demand for loans on the part of SMEs continues to increase together with the growth of the need in circulating capital; whereas the demand for loans on the part of large enterprises is going down given saturation with loans as well as the expectation of implementation of the Soft Lending Program (KZT 600 bln). According to outcomes of the enterprise monitoring survey, the number of enterprises that note deterioration in the lending terms and conditions is gradually decreasing. Banks also mention the growth in demand for mortgage loans.

There is a downward trend in the structure of interest rates on loans in the domestic currency. The interest rate on retail long-term loans is decreasing given the easing terms and conditions of housing loans that are fostered by the 7-20-25 Program.

The interest rate on long-term loans to businesses is also smoothly going down. The spread between an actual interest rate and the rate acceptable for enterprises is

shrinking as a consequence of the decreasing average interest rate on loans.

Figure 46. Interest Rates on Loans in the Domestic Currency, %



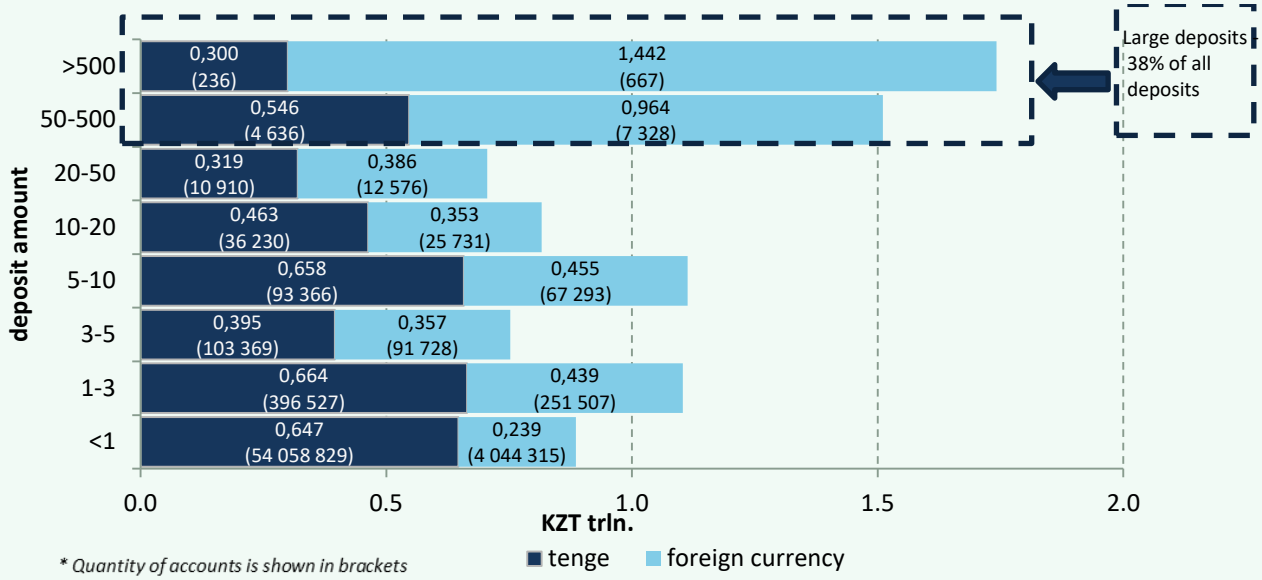
Source: NBRK

Box 4. Deposit Dollarization

Dedollarization of retail deposits had actually succeeded. Conversion of people's savings from foreign currency into the tenge had taken place on accounts with the deposit amount less than KZT 20 mln., which represent the bulk of depositors – 99.9% of accounts (Diagram 7).

A further dedollarization of deposits is constrained by large foreign currency depositors (with deposits in the amount exceeding KZT 50 mln.), which account for 38% of all deposits.

Diagram 7. Deposit Structure Broken Down by Accounts and Currencies (as at 01.02.2019)*



** Quantity of accounts is shown in brackets*

There is regularity according to which the larger the deposit amount of an individual, the begger the share of foreign currency deposits among them.

The problem of dollarization of the largest accounts (above KZT 500 mln.) is especially pressing. 83% of deposits in the segment over KZT 500 mln. remain dollarized despite the fact that these deposits are placed on 667 accounts only or 0.001% of all accounts.

The reason of high dollarization in the segment of large depositors is related to the "ratchet effect". The ratchet effect is very pronounced in case of large depositors. This shows that large depositors when making decisions about their asset allocation pay a great attention to the past values of the exchange rate. Large depositors held a major portion of their savings in foreign currency including during the periods of high oil prices in 2011-2012..

Background information. *The concept which is widely used in the theory of consumption, in the theory of money and other fields of the economy and which is known as the "ratchet/hysteresis effect") is related to the mechanism which enables an unlimited movement in one direction but a sluggish movement in other direction. The experience of other countries shows that the demand for foreign currency deposits is materially increasing when inflation reaches high levels or when the exchange rate depreciates significantly, but when inflation is decelerating or the exchange rate is appreciating the demand for foreign currency deposits is going down but at a slower pace. As a result, deposit dollarization may not come back to the same level.*

**More details with the outcomes of this study can be found in the Working Paper by Orazalin R., Mukanov N., Ossipov I., "Modeling the Deposit Dollarization Level in the Republic of Kazakhstan", Economic Study of the National Bank of Kazakhstan, No.2017-9, October 2017, https://nationalbank.kz/?docid=3546&switch=ru*

BASIC TERM AND DEFINITIONS

Core Inflation – means the inflation which excludes transitory uneven price changes subject to certain factors of administrative, event-related and seasonal nature.

Base Rate is a key monetary policy instrument of the National Bank that helps to regulate nominal interbank interest rates in the money market. By setting the level of the base rate, the National Bank determines a target value of the targeted interbank short-term money market rate in order to achieve the goal of ensuring price stability in the medium term

Gross Fixed Capital Formation – is the growth in non-financial assets which have been used in the process of industrial production for a long time. Gross fixed capital formation includes the following components: a) acquisition, less retirement, of new and existing fixed assets; b) costs for major improvements of tangible produced assets; c) costs for improvement of tangible non-produced assets; and d) expenses in connection with the transfer of title for non-incurred costs.

FX Swap – means a foreign exchange transaction which involves the concurrent purchase and sale of a certain amount of one currency in exchange of another currency with two different value dates.

Gross Domestic Product is an indicator that reflects the market value of all final goods and services (i.e. designated for direct consumption) produced during a year in all sectors of the economy within the territory of the country for consumption, exports and saving, irrespective of the national identity of the used production factors.

Money Base (Reserve Money) includes cash issued in circulation by the National Bank, other than cash at the cash departments of the National Bank (cash outside the National Bank), transferrable and other deposits of banks, and transferrable deposits of non-bank financial organizations and current accounts of government and non-government non-financial organizations in the tenge at the National Bank.

Money Supply (M3) is determined on the basis of consolidaon of balance sheet accounts of the National Bank and banks. It consists of cash in circulation and transferable and other deposits of non-bank legal entities – residents and households in the domestic and foreign currency.

Dollarization of the Economy means the situation where a foreign currency (largely – the US Dollar) starts to be used for transactions within a country or in certain sectors of its economy, pushing out the domestic currency from the domestic money turnover, and acting as the means of saving, measure of value and the legal tender.

Inflation – is an increase in the general price level of goods and services. In Kazakhstan, inflation is measured with the use of consumer price index.

Consumer Price Index (CPI) – the change in the overall level of prices for goods and services purchased by the population for consumption. The consumer basket of Kazakhstan for calculation of inflation reflects the structure of household expenditures and includes goods and services which represent the largest relative share in the consumption of population. The CPI is calculated as the ratio of the cost of a fixed set of goods and services in current prices and its cost in the prices of the previous (base) period. The index is calculated by the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan.

Inflation Targeting – is a monetary policy regime which is oriented at achieving a target inflation rate.

Composite Indicator – is a generalizing indicator which is used to reflect short-term trends in the development of the real sector of the economy. Composite indicator as possessing the forward-looking feature is used to reflect a cyclical change and to identify turning points when recovery and downturns in the economy occur and change. A composite indicator is built on the basis of survey findings among enterprises which

participate in the market research conducted by the National Bank.

Short-term economic indicator is calculated with a view to ensure efficiency and is based on the change in the output indices by key sectors: agriculture, industry, construction, trade, transport and communication accounting for over 60% of GDP. The indicator is built without recalculations for the unobservable economy and without other macroeconomic adjustments.

Credit Auctions mean the National Bank's auction for the securities buy/sell back.

Minimum Reserve Requirements (MRRs) mean the mandatory share of bank's liabilities which a bank is to keep in the form of cash in its cash department and monies on correspondent accounts with the National Bank in the domestic currency (reserve assets). The volume of reserved liabilities of banks is regulated by the MRR ratios.

Nominal Anchor for Monetary Policy. It is a certain indicator including a macroeconomic indicator which helps the National Bank to influence the ultimate monetary policy goal.

Reverse Repo is the purchase of a security with the commitment to sell it after a specific period of time and at a specific price. The National Bank conducts reverse repos with a view to provide the tenge liquidity to banks against the pledge of securities in line with the National Bank's list of collateral.

Open Market Operations are regular operations of the National Bank in the form of auctions for liquidity provision or withdrawal in the money market with a view to set interest rates around the base rate.

Standing Facilities refer to monetary policy instruments for adjustment of volumes of liquidity, which resulted from the open market operations. Standing facilities are provided as part of bilateral arrangements where the National Bank is one party to the transaction. Such operations are conducted at the initiative of banks.

Transferrable Deposits refer to all deposits which: 1) can be converted into cash at face value at any moment in time without any penalties and restrictions; 2) are freely transferable through a check, draft or endorsement orders; and 3) are widely used for making payments. Transferable deposits represent a part of the narrow money.

Other deposits primarily include savings and time deposits that only can be withdrawn on expiration of a certain period of time, or can have different restrictions which make them less convenient for use in the ordinary commercial transactions and, mainly, meet the requirements established for saving vehicles. In addition, other deposits also include non-transferable deposits and deposits denominated in foreign currency.

Potential Output reflects the level of output in the economy that can be reached subject to full utilization of inputs and full employment. It reflects the volume of production which can be manufactured and realized without creating prerequisites for the change in the price growth rates.

Consumer Basket means a sample of goods and services which characterizes the standard level and the structure of monthly (annual) consumption of an individual or a family. Such sample is used to calculate the minimum subsistence level, based on the cost of the consumer basket in current prices. The consumer basket also serves as a comparative basis for estimated and real consumption levels and also as the basis to determine the purchasing capacity of currencies.

Interest Rate Channel of the monetary policy transmission mechanism is the transmission mechanism channel which describes the impact of the central bank on the economy through the interest rate regulation.

Direct Repo is the sale of a security with the commitment to repurchase it after a specific period of time and at a specific price. The National Bank conducts direct repos with

a view to withdraw excess liquidity in the tenge.

Free Floating Exchange Rate. According to the current classification of the International Monetary Fund, under the floating exchange rate framework a central bank does not establish any pegs including operating ones for the level or the change in the exchange rate, allowing the exchange rate to be determined by the market factors. In doing so, the central bank reserves the opportunity to periodically intervene in the foreign exchange market in order to smooth out the volatility of the domestic currency exchange rate or to prevent its dramatic changes as well as to ensure the financial system stability.

Output Gap (GDP Gap). Deviation in GDP expressed as a percentage of a potential output. Expresses the difference between an actual GDP and potential GDP for a certain time frame. Serves as an indicator which reflects the effectiveness of resources utilized in the country. If an actual output exceeds the potential one (a positive output gap), other things remaining equal, the trend of acceleration in the price growth rates would be anticipated because of the overheating of the economy. The presence of a negative output gap indicates an expected slowdown in the price growth rates due to low economic activity. Output fluctuations around its potential level reflect business cycles in the economy.

Real Exchange Rate refers to a relative price of a commodity produced in two countries: the proportion of commodity exchange between countries. The real exchange rate depends on the nominal rate, relation between exchange rates of currencies, and prices for goods in the domestic currencies.

TONIA Rate – (Tenge OverNight Index Average) represents a weighted average interest rate on one-day repo opening transactions made on the stock exchange with government securities in the automatic repo sector.

Monetary Policy Transmission Mechanism is the process, by which monetary policy tools influence final macroeconomic indicators such as the economic growth, inflation.

Narrow Reserve Money is the reserve money excluding other deposits of banks at the National Bank.

NDF – non-deliverable forwards used to hedge foreign exchange risks.

LIST OF KEY ABBREVIATIONS

GDP – Gross domestic product
GPIID – Government Program for Industrial and Innovation Development
EU – European Union
ECB – European Central Bank
CPI – consumer price index
CS MNE RK – Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan
KASE – Kazakhstan Stock Exchange
KSF – "Kazakhstan Sustainability Fund" JSC
NBRK – National Bank of the Republic of Kazakhstan
VAT – value-added tax
OPEC – Organization of the Petroleum Exporting Countries
UN FAO – Food and Agriculture Organization of the United Nations
RK – Republic of Kazakhstan
REER – real effective exchange rate
USA – United States of America
FAO – Food and Agriculture Organization of the United Nations
Fed – Federal Reserve System
Bln. - billion
Mln. - million
Thous. – thousand
USD – US Dollars