



NATIONAL BANK OF KAZAKHSTAN

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The base rate remains unchanged at 9.00%

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Almaty

The National Bank of Kazakhstan has made a decision to maintain the base rate at 9.00% with the corridor of +/-1 percentage points. The annual inflation is developing in accordance with the National Bank outlook. Inflation expectations leveled with the annual inflation.

According to the revised assessment of the National Bank, the inflation will continue to develop within the target range, close to its upper bound for the rest of the year. In the presence of risk escalation in the global resource markets and strengthening inflationary pressure from the expanding consumer demand, tightening monetary policy until the end of this year is possible.

The annual inflation remains in the target range of 4-6%. In June it developed at 5.4% level amid of a 0.2% increase in consumer prices during the same month. The main contribution to this rise was made by the food items; their prices increased by 8.2% in annual terms. The price increase took place under the influence of supply-side drivers in certain domestic products markets (meat and meat products, bakery products, and cereal), as well as an increasing cost of grains and meat products in the global food markets.

Non-food inflation remained at 6.1% level. Annual growth rate of tariffs for paid services continues to form at the minimum level of 1.2%.

Inflation expectations of households, which tend to be sensitive to changing prices in food markets, increased. In June the expected inflation leveled the actual inflation and was equal to 5.4%, compared to 4.7% in May this year.

The inflationary pressure, originating from the drivers of domestic demand, is observed. Real income growth in January-May reached 5.5%. The expansion of domestic demand is stimulated by the extending social focus of fiscal programs, and short-term consumer loans. In May consumer lending of banking sector grew up by 14.8% in annual terms.

The economic activity demonstrates a positive trend. According to the statistics of the first six months of 2019, the economy of Kazakhstan grew by 4.1%. A positive investment activity remains, which is evidenced by the growth of investment in fixed capital by 11.7% in January- June 2019.

The balance of risks in the external sector has changed from the previous decision-making. The average Brent oil price went to \$66 a barrel since the beginning of the year, compared to \$72 a barrel on average in 2018. International organizations made a downward revision of outlook for the global economic growth and the growth of the main trading partners of Kazakhstan in 2019, which will affect the slowdown in the external demand for the Kazakhstan export. Trade negotiations between the US and China remain incomplete.

Nevertheless, inflation in countries - main trade partners is developing at the moderate level (4.7% and 2.7% in June, in Russia and China respectively; 1.6% in May in the EU)

External monetary conditions are easing gradually. The recent rhetoric of the US Federal Reserve regarding a lower trajectory of rates in the future, and ECB statement about the additional measures of economic stimulation. In June the Central Bank of Russian Federation lowered the key rate to 7.5% with a possibility of further cut by the end of this year.

Current level of base rate and monetary conditions promote conditions for **sustaining inflation close to upper boundary of the 4-6% target range in the forecast horizon**. In situation of rising probability of main risks realization that can prevent from achieving the inflation objective, the National Bank will consider raising the base rate until the end of this year.

The next decision on the base rate will be announced on September 9, 2019, at 17:00 Nur-Sultan time.

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