



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 formed in the middle of the target range. Inflation expectations remain below the level of annual inflation. Positive trends are also underway in the external sector.

According to the assessment of the National Bank, taking into account the impact of internal and external factors, the annual inflation will be within target range throughout 2019-2020.

In May 2019 **the annual inflation** formed at the level of 5.3% compared to 4.9% in the previous month. At the same time, the non-food inflation and inflation of paid services formed at the levels of 6.1% and 1.3% in annual terms respectively. The current level of inflation was largely formed under the influence of price increase of food items (7.9% in May 2019) amid inflation accelerating in manufacturing and rising prices of import goods.

Inflation expectations of households remain low. According to the results of the household survey, in March and April, the value of expected inflation 12 months ahead was formed at 4.5% level. In the absence of shocks from the domestic goods market, the expected inflation anchoring below the level of actual inflation will have a disinflationary impact in the future.

The external conditions are defined largely by the dynamics of the world oil price, which remains volatile. The average Brent **oil price** in January-May of this year was formed above the level of \$66.8 per barrel. Nevertheless, from 27 May to 3 June 2019 the oil price has dropped sharply by \$9 from \$71 to \$61, or by 13%, which is due to the tightening trade conditions in the global economy.

External monetary conditions have not changed. The inflationary pressure from price increases in the countries - main trade partners increased marginally in April. Inflation in April in Russia amounted to 5.2%, China – 2.5%, the European Union – 1.9%. Amid expectations of inflation decrease in Russia by the end of 2019, the influence of the external factor on inflation will weaken in the future.

The main risk from external environment occurs as a result of the tension in trade relations between the US and other countries, primarily China, which can lead to a slowdown in the global economic growth and have a negative impact on world trade, as well as on goods and capital markets.

Major risks to the further deceleration of inflation in the forecast horizon (until the end of 2020) are related to the growing aggregate supply and domestic demand in the economy.

In January-April 2019 short-term economic indicator rose by 4.1% due to the growth in the construction industry (8.4%), trade (7.3%), transport (4.8%), agriculture (3.6%),

manufacturing (3.5%), and mining (2.6%). In January-April, the growth of investment in fixed capital amounted to 6.7%. As a result, **the output gap** is estimated to be positive, i.e. is above its potential, creating a certain inflationary potential.

The growth of economic activity is accompanied by the expanding **domestic demand** amid rising wages and social compensations. Hence, the real money income of the population grew up by 9.7% in annual terms in March 2019. The growth of consumer lending, which totaled 14.6% in annual terms in April, indicates growing consumer activity of the population.

An increase in social compensations and wages in accordance with the assignment of the First President – Elbasy, given during XVIII convention of Nur Otan party, and rescheduling the date of the wage increase for state employees to June 1 2019 according to the order of the President of Kazakhstan K. Tokayev, in addition to the measures to raise minimum wage and individual income tax cut for low-paid workers, promote growth in consumer demand. According to the National Bank’s estimates, an additional impact on inflation from the implementation of social initiatives will not exceed 0.3%.

The **monetary conditions** remain neutral. The base rate in real terms, i.e. taking into account the expected inflation 12 months ahead, is at the level, ensuring inflation maintaining in the target range of 4-6% during the forecast horizon of 2019-2020, as well as promoting sustainable economic growth.

Compared to the previous decision on the base rate, the risk balance is shifting to higher trajectory of rates development.

The next decision on the base rate will be announced on July 15, 2019, at 17:00 Nur-Sultan time.

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