



NATIONAL BANK OF KAZAKHSTAN

## PRESS RELEASE № 7

The base rate remains unchanged at 9.25%

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Almaty

*The National Bank of Kazakhstan has made a decision to maintain the base rate at 9.25% with the corridor of +/-1 percentage points. The annual inflation continued to decline in February and formed just below the midpoint of the target range. Nevertheless, the risk of accelerating inflationary background persists, in part because of the unbalanced dynamics of inflation components.*

*The risks of the worsening external environment taken into account in the previous revision of the base rate did not realize. According to the assessment of the National Bank, the probability of their realization further on has diminished. The current level of the base rate facilitates the achievement of the target for inflation in 2019.*

In January and February 2019 **annual inflation** slowed down to 5.2% and 4.8% respectively. However, the nature of this decline is not stable. This is reflected in the multidirectional dynamic of the core components of the consumer price index. The inflation of food commodities accelerated noticeably (from 5.1% in December 2018 to 6.6% in February 2019) with regards to all categories of goods, except for the fruits and vegetables. A decline in the price of paid services in the first two months of the year (by 0.2% and 1.3% respectively) was due to the enhanced administrative measures to reduce tariffs for natural monopolies' services. This resulted in the reduction in the annual change of services' component of the consumer price index from 4.5% to 1.3% from the beginning of the year. The inflation of non-food products continued to slow down, reaching 6.2% in annual terms in February.

The cost component has decelerated significantly. Prices in manufacturing slowed down to 7.7% in annual terms at the end of February (in comparison to 24.6% 6 months ago). The annual price growth in the manufacturing of consumer goods amounted to 1.8%.

**Inflation expectations** are gradually reducing after a surge in Autumn 2018. In January, values of expected inflation 12 months ahead declined to 4.7%, which is the minimum value since the beginning of the questionnaire. The proportion of respondents that expect inflation acceleration fell to 17.2% in comparison to the historical maximum of 28.2% in October 2018, whereas the proportion of responders expecting a deceleration of inflation reached its maximum value in the past 12 months – 27.4%.

**The output gap** is estimated to be positive, but its low level constrains the inflationary pressure. Moreover, the growth of **economic activity** has slowed down this year. The short-term economic indicator amounted to 2.9% in annual terms in January 2019 (4.7% at the end of 2018). A positive contribution to the growth was provided by the mining industry (6.8%), transport (3.7%), trade (7.5%), and agriculture (3.5%).

An increase in household consumption that was reinforced by the **growing real money income** (growth by 3.2% in December 2018 in annual terms) is observed, as well as a **recovery in consumer lending** (growth by 14% in annual terms in January). A strengthening tendency of consumer demand growth is expected due to the fiscal stimulus. Nevertheless, an impact on

inflation is not estimated as strong. Therefore, it does not require an immediate reaction on the part of monetary policy.

Concerns related to the significant deterioration of the **external environment**, which were taken into account during the previous revision of the base rate in January this year did not materialize and a probability of risk realization has declined. Brent **oil price** is forming above \$ 65 per barrel (in comparison to the price under \$55 per barrel in the second half of December 2018). In January the **FAO Food Price Index** was 2.2% below the corresponding month last year, regardless of a rise in international price indices for dairy products and cereal.

Nevertheless, inflationary risks originating from several external factors continue to exist. The inflation in the countries - main trading partners reflects multidirectional tendencies. In January the annual inflation in Russia accelerated to 5.0%, whereas in China and the European Union it decelerated to 1.7% and 1.5% respectively.

Due to the decision made current monetary conditions remain neutral. Real market interest rates are kept at the level sufficient for achieving the target for inflation and, at the same time, facilitating the economic growth at potential levels. In the absence of shocks, the annual inflation will continue to form along the upper boundary of the target range of 4-6% in 2019.

The next decision on the base rate will be announced on April 15, 2019, at 17:00 Astana time.

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