



NATIONAL BANK OF KAZAKHSTAN

## Press release №8

### On maintaining the base rate at 12.0% and adapting the domestic market to the new macroeconomic realities

March 16, 2020

Almaty

The National Bank of Kazakhstan has made a decision to maintain the base rate and the interest rate corridor at 12% per annum +/- 1.5 percentage points.

In the conditions of **uncertainty in the external sector** and realization of risks related to the expansion of coronavirus COVID-19, the consequences of trade wars, the increase of geopolitical tensions, according to the estimates of the international institutions and experts **the significant and persistent economic growth slowdown** is expected. The growth rate of global GDP in 2020 can be the **worst since the world financial crisis in 2008**.

Since the beginning of the last week **the significant volatility in the world commodity and financial markets** is being observed. The dynamics of oil price is getting formed under the influence of the events caused by the disagreement of the participants of OPEC+ meeting and the unfolding price war between Russia and Saudi Arabia. From March 9, 2020 Brent oil price has fixed in the range of 31-36.5 US dollars per barrel. In the morning of March 16, 2020 it amounted to 32.8 US dollars per barrel.

As the result of investors' negative expectations **the world stock market indices** have demonstrated the most dramatic drop in **the past 30 years**. Last week the US Fed announced short term liquidity provision in the amount of 1.5 billion of US dollars and yesterday on an emergency basis reduced the key interest rate to 0-0.25% and announced the launching of the new quantitative easing program in the amount of 700 billion of US dollars. **The depreciation of the developing and oil exporting countries' national currencies** was observed.

Under these conditions in order to maintain the price stability the National Bank of Kazakhstan has taken **a number of prompt and proactive measures** during the period from March 10 to March 13.

The decision made on March 10, 2020 to increase **the base rate** to the level of **12%** has provided a preventive effect to the spread of panic in the market and has timely adjusted the strategies of the market agents, thus allowing to reduce the emerging inflationary risks and protect the tenge assets.

At the same time, the **expansion of the interest rate corridor to 1.5 pp** was intended to reduce the possibility of speculative pressures on exchange rate by the market participants, increasing the cost of tenge borrowing by the banks from the National Bank of Kazakhstan to 13.5%. The National Bank of Kazakhstan on the daily basis provides liquidity to banks without the amount limitations.

**To stabilize the situation in the FX market** under the conditions of sharp change in external terms of trade and the shortage of foreign currency supply, the National Bank of Kazakhstan has conducted the foreign exchange interventions, acting as a sole seller of foreign currency in certain periods. In particular, on March 10, 2020 with an aim to prevent the unfounded volatility of the exchange rate the call auction was activated. The National Bank of Kazakhstan has coordinated and monitored the foreign currency transactions of the quasi-government sectors, commercial banks and

exchange offices. It allowed to mitigate the negative influence of the external factors on the exchange rate, which depreciated by 6.1% to 405.62 KZT per 1 US dollar over the period from March 6 to 13, 2020.

The National Bank of Kazakhstan is considering the significant deterioration of the global growth perspectives, the decline in demand and the increase of the volatility in the commodity market as the new economic reality. Based on the analysis of the evolving context, the National Bank of Kazakhstan has **revised its vision on the future development of the Brent oil price dynamics from 60 to 35 US dollars per barrel**. The new price level is regarded as the base scenario till the end of the forecasting period. The deterioration of the scenario has increased the risk of **the inflation rate** to exceed the upper target boundary for 2020.

From this moment forward, taking the new fundamental realities into account, **the National Bank of Kazakhstan intends to encourage the formation of the equilibrium exchange rate** in accordance with the free floating exchange rate regime and inflation targeting.

**The National Bank of Kazakhstan** has all the necessary instruments to further stabilize the situation in the domestic financial market. Should the need arise, joint and coordinated measures **with the Agency for regulation and development of the financial market** will take place in order to prevent the negative consequences from the external sector. The National Bank of Kazakhstan continues to monitor the situation and keeps the right to mitigate the exchange rate fluctuations, which do not reflect the influence of the fundamental factors, as well as in case of a threat to the financial stability.

In the event of worsening of the situation in the world economy, with an aim to maintain the price stability and stable situation in the FX and financial markets, the possibility of taking the additional measures is not ruled out.

The next decision of the National Bank of Kazakhstan on the base rate will be announced on April 27, 2020 at 15:00 Nur-Sultan time.

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