



NATIONAL BANK OF KAZAKHSTAN

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The base rate remains unchanged at 9%

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Nur-Sultan

The Monetary Policy Committee of the National Bank of the Republic of Kazakhstan has made a decision to maintain the base rate at **9.0%** with the interest rate corridor of +/- 1.0 percentage points. Consequently, the rate for the liquidity provision standing facilities set on **10.00%** and for the liquidity withdrawal standing facilities – **8.00%**.

The decision was made with a purpose to return inflation to the target band of 4-6% in the medium term and was based on the shift in the balance of risks towards the pro-inflationary factors. External and internal inflationary pressures have increased, the risks of a further rise in food prices have risen, and inflationary expectations are growing. There is also remaining uncertainty associated with coronavirus infection in the country and in the world.

The annual inflation rate at the end of 2020 was in line with the forecasts of the National Bank and amounted to **7.5%**.

Food inflation accelerated to **11.3%** (YoY) as a result of a significant rise in prices for butter, eggs, sugar and vegetables, driven by the dynamics of world prices and prices set by domestic producers.

Non-food inflation amounted to **5.5%** (YoY). While the growth in prices for clothing, footwear, fuels and lubricants slowed down, prices for medicines, household items and household appliances increased, which was due to the epidemiological situation, as well as the persistence of demand in the conditions of remote work and study.

Acceleration of **the inflation of paid services** to **4.2%** (YoY) was due to the rise in the cost of unregulated paid services. The main contribution was provided by the annual growth in the cost of catering services, hotel services, certain types of personal services and personal care services amid a gradual demand recovery.

Core inflation indicators demonstrate the acceleration of inflationary processes. Thus, the annualized seasonally adjusted core inflation, excluding fruits and vegetables, regulated utilities, rail transport, communications, gasoline, diesel fuel and coal, accelerated in December 2020 to **7.9%** (in September-October - 5-6%).

Inflation expectations remain elevated, with a slight decrease in the quantitative estimate of expected inflation for the year ahead to **7.6%** in December 2020. The share of respondents expecting the continuation of the current or faster growth in prices amounted to 50% (in November 2020 - 52%).

The economy of Kazakhstan in 2020 contracted by **2.6%**, which is in line with the forecasts of the National Bank. The main negative contribution to the contraction of GDP was made by the decline in the mining industry, trade and transport. The downturn in the mining industry was due to a production decrease of oil and gas condensate. The reduction in transport was facilitated by a decrease in the volume of cargo and passenger traffic. The negative dynamics of trade is associated

with the persistence of quarantine restrictions and suppressed demand. Meanwhile, the manufacturing industry, agriculture, construction, information and communications, as well as the public sector made a positive contribution to the GDP dynamics.

The survey polls of enterprises led by the National Bank indicate an improvement in sentiment in the real sector. Starting from July 2020, the business activity index continues to rise to the 50-point mark, reaching **49.0** points in December. Enterprises note an improvement in the business environment - the business climate index for the economy of Kazakhstan in December 2020 amounted to 4.2 (in November - 1.3).

The deterioration of the situation in the global economy amid the pandemic was also reflected in a gradual slowdown in the growth of nominal money income of households of Kazakhstan - from 13.8% in March to 2.1% in November 2020 (YoY). Along with this, the acceleration of inflationary processes led to a decrease in **the real money income** of households (a decrease by 4.8% in November 2020). However, in the second half of the year there is a slight recovery in consumer demand of households, associated mainly with food consumption and a weak recovery of the non-food products consumption.

With the vaccination against COVID-19 started in large countries, **the situation in the global economy** remains weakly positive due to the strengthening quarantine restrictions in a number of countries and the emergence of new strains of the virus. The industrial sector of developed countries and the further growth of foreign trade indicators in China continue to provide significant support to the global economy.

The dynamics of annual inflation in the countries being the trading partners continues to evolve in different directions. In December 2020, the annual inflation rate in the EU was 0.2%. In China, after deflation in November 2020, inflation rose to 0.2%. In turn, in Russia, there is an acceleration of inflation to 4.9%, which, coupled with an increase in world food prices, indicates an increased external inflationary background. Monetary conditions of the countries being the trading partners remain easing.

The situation in the global oil market has improved slightly, which is explained by the new OPEC+ agreement, the expectation of mass vaccinations and the subsequent recovery of the world economy. With the support of these factors, the price of Brent crude oil has risen above **55** US dollars per barrel since the beginning of January 2021.

Despite the uncertainty of the prospects for the oil market development, the estimate of the expected oil consumption was slightly increased in the latest forecasts of international organizations. Along with this, due to the current recovery in oil prices, it is expected that the supply of oil will also increase. According to EIA forecasts, in 2021 and 2022 the price of Brent crude oil on average will be **52.8** and **53.4** US dollars per barrel, respectively.

Further decisions on the base rate will be made taking into account the actual dynamics of inflation, its compliance with the forecasted estimates, the rate of deceleration and stabilization of inflation expectations, and also the balance of risks.

The next planned decision of the Monetary Policy Committee of the National Bank of the Republic of Kazakhstan on the base rate will be announced on March 9, 2021 at 15:00 Nur-Sultan time.

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