



NATIONAL BANK OF KAZAKHSTAN

## Press-Release №43

### The base rate remains unchanged at 9.00%

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Nur-Sultan

The National Bank of Kazakhstan has made a decision to maintain the base rate at **9.00%** per annum with the interest rate corridor of **+/- 1.5 percentage points**. Consequently, the rate for the liquidity provision standing facilities is to be set at 10.50% and for the liquidity withdrawal standing facilities at 7.50%.

The recovery of the economic activity in the world is moderate and unstable owing to the second wave of COVID-19. As a result of the new disease spikes, a record number of infected are registered, forcing governments to introduce new restrictions in many countries, including Kazakhstan's largest trading partners - the EU and the Russian Federation. The oil market is experiencing increased volatility associated with the uncertainty of the recovery in global demand. The geopolitical risks are growing. The persistence of uncertainty and the increased probability of external risks limit the potential for lowering the base rate.

For the second month in a row, the stabilization of inflation has been observed. Disinflationary factors continue to prevail and are reflected in suppressed aggregate demand, declining real incomes of the population and a slow recovery in business activity. The pro-inflationary factors also present in the short and medium term. The medium-term factors include a possible acceleration of inflation due to deferred demand, an expected deterioration in the current account of the balance of payment and a delayed consolidation of the state budget. The short-term factors include a worsening epizootic situation (mass mortality of birds as a result of the spread of avian influenza), an increase in gasoline prices due to a slowdown in production growth, enhanced export performance, an increase in electricity tariffs and accelerated rise in sugar prices in the Russian Federation.

**At the end of September 2020, the annual inflation is formed at the level of 7.0% (7.0% in August) below the National Bank's expectations.** The food and non-food components of inflation have stabilized, amounting to **10.8%** (10.9% in August) and **5.5%** (5.5% in August), respectively. The inflation of paid services was formed at the level of **3.6%**. The National Bank monitors the dynamics of inflation components. In the structure of **food inflation**, a slowdown in annual growth rates of prices in the markets of meat and bakery products and an increase in prices for groups of import-intensive goods are observed. The annual growth in prices for bakery products and cereals amounted to 13.4%, meat and meat products - 10.3%, oils and fats - 9.8%, tea and coffee - 9.4%, alcoholic beverages - 7.7%. The dynamics of **nonfood inflation** remained relatively stable in light of suppressed consumer demand caused by the decline in real incomes of the population, compliance with quarantine measures and restrictions on the operation of shopping facilities. As quarantine measures

are softened and the activities of real sector enterprises are resumed in September 2020, the annual growth rate of gasoline prices accelerates to 2.7%. The main factor for the acceleration of **inflation of paid services** became the rise in the cost of regulated utilities by 0.7%, in particular, electricity cost by 6.6%. The overall increase in prices for services is also affected by the rise in the cost of education and communication services by 3.3% and 2.1%, respectively.

**Inflationary expectations fell in September 2020.** Compared to the previous assessment, fewer respondents noted an increase in food prices, more - for non-food products and services. In September 2020, the quantitative estimate of inflation for the year ahead was 6.5%. The share of respondents expecting continued or accelerated price growth over the next 12 months dropped to 49% in September 2020 (55% in August 2020). Despite the positive changes, the respondents' assessments remain largely volatile.

**Core inflation indicators stabilized.** Core inflation (excluding fruits and vegetables, utilities (regulated), railway transport, communications, gasoline, diesel and coal) amounted to 7.4% in September (7.4% in August), the deviation from actual inflation was reduced to 0.4 p.p. (in December 2019 - a gap of 1.9 p.p.). In September 2020, core inflation – trimmed mean (total inflation excluding 8% of maximum and minimum price changes) and median inflation demonstrate more moderate dynamics - 6.1% (6.2% in August) and 4.6% (4, 5% in August), respectively.

**From the beginning of the year, the real sector demonstrates the expected decline, while the recovery continues.** At the end of 9 months of 2020, GDP decreased in line with forecasts by **2.8%**. The negative impact of the COVID-19 pandemic on the economy of Kazakhstan still persists, however, the improvements in certain sectors are present due to the easing quarantine measures and government support. **In September, a positive contribution** was made by the manufacturing industry (2.9%), agriculture (5.1%), construction (24.2%), information and communications (7.3%). In trade, an increase of 2.7% was recorded for the first time since March 2020. The main **negative contribution** to the GDP dynamics was made by the mining industry (-7.7%) and transport (-23.1%). The results of the survey of enterprises indicate a slight improvement in sentiment in the real sector. In September 2020, the **business activity index** (BAI) rose by 2.2 points and amounted to **47.6** (July - 44.7, August - 45.4). At the same time, the BAI level remains below 50 points, which still indicates suppressed economic activity and the prevalence of disinflationary factors. After six months of being in the negative zone, the **business climate index** turned positive in September, amounting to 2.0 points.

**Fixed capital investment declined by 4.9% in January-September 2020, reflecting the impact of the shock caused by the coronavirus pandemic.** The recovery of investment occurs in transport and professional, scientific and technical activities (from the beginning of the year an increase of 5.7% and 57.1%, y/y, respectively). The negative dynamics of investments persists in the mining industry, where the decline in January-September deepened compared to the previous months (a decrease of 23%, y/y, in January-September 2020). A decline in investment is also noted in trade, construction and financial activities. All other real and public sectors demonstrate an increase in fixed capital investment.

**Real incomes of the population in August 2020 continued to decline with a slowdown in real wage growth.** The annual decline in real income constituted **2.5%**. In January-August 2020, in the structure of nominal incomes of the population, a decrease in the share of income from self-employment and an increase in the share of income from employment and income in the form of transfers were observed. This is accompanied by the continued growth of republican budget expenses

for social assistance and social security (in January-August 2020, an increase of 17.6%). In August, the growth of real wages (excluding small enterprises) amounted to 3.5%, in September - 3.0%.

**The situation in the external sector remains uncertain regarding the rate of the global economic recovery.** In October, the IMF improved its outlook for the development of the world economy for 2020 from -4.9% to **-4.4%**, but adjusted its expectations for 2021 downward from 5.4% to **5.2%**. The uncertainty about the rate of global economic recovery due to the coronavirus situation is still present. At the same time, the results of the US presidential elections and the size of the US stimulus package remain among the significant risk factors for foreign markets.

IMF estimates on **economic growth of major trading partners** in 2020 have been improved. The forecast for the **EU** economy for 2020 increased from -10.2% to **-8.3%**, for 2021 reduced from 6.0% to **5.2%**. The prospects for recovery are linked to the uncertainty due to the rising of coronavirus cases and the absence of agreement with the UK on future trade relations. The forecast for the economy of **China** in 2020 has been improved to **1.9%** (the previous estimate was 1.0%). In 2021, the estimation remained unchanged - **8.2%**. Despite the expected recovery, concerns about the spread of the coronavirus in many key cities and a slower recovery from the recent floods still remain. In addition, the decline in imports in July-August 2020 indicates weak domestic consumption. The forecast for the dynamics of the **Russian** economy for 2020 has also been improved from -6.6% to **-4.1%**, while for 2021 it has significantly deteriorated from 4.1% to **2.8%**. The deterioration is due to the increase in the tax on mineral extraction, increased sanctions and geopolitical risks and risks associated with the instability of the global oil market.

**Monetary conditions in trading partner countries** remain soft as business activity declines around the world. **Inflation in trading partner countries** remains below target values. In September 2020, inflation in the EU (0.2%) and China (1.7%) continued to decline due to the weakening demand. In Russia, inflation accelerated to 3.7% amid rising prices for non-food products.

**The situation in the world oil market is developing under the baseline scenario of \$40 per barrel.** In September 2020, prices for Brent crude oil fell below \$40 per barrel with a subsequent recovery associated with repeated outbreaks of the coronavirus in the world and an increase of oil supply in world markets. According to international organizations estimations, the oil demand will continue to recover until the end of 2020 and in 2021. Supply growth will be moderate and will be provided mainly by non-OPEC countries. At the same time, the main risks in the oil market are still present: uncertainty about the COVID-19 pandemic, the recovery of oil production in Libya and the United States, low discipline among the OPEC+ countries.

**Following the results of 9 months of 2020, the current account of the balance of payments is expected to move into the negative zone.** Deteriorating conditions of trade in March-April owing to the decrease in oil prices and oil production volumes will affect the balance of payments indicators in the third quarter. The negative current account of the balance of payments will be attributable to the first trade deficit in the last 20 years, caused by the outstripping rate of decline in exports over imports.

The next decision on the base rate will be made taking into account the results of the upcoming forecasting round "November-December" and will be based on updated inflation forecasts and other macroeconomic indicators, depending on the evolving dynamics and the continuation of the coronavirus pandemic. This will provide the possibility to analyze the correspondence of monetary conditions to the expected and actual situation of the economy, as well as to assess the potential for the rate cut, given the achievement of the inflation target in 2021.

The next planned decision of the National Bank of the Republic of Kazakhstan about the base rate will be announced on December 14, 2020 at 15:00 Nur-Sultan time.

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