



NATIONAL BANK OF KAZAKHSTAN

## Press Release №10

### The base rate remains unchanged at 9.00%

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Nur-Sultan

The Monetary Policy Committee of the National Bank of the Republic of Kazakhstan has made a decision to set the base rate at **9.00%** per annum 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 at 8.00%

The decision was made based on the balance of inflation risks in the short and medium term perspective. There is a continuation of external inflationary pressure caused by the growth of world food prices and the acceleration of inflation in the countries-trading partners of Kazakhstan. In the domestic economy, the process of gradual recovery of business activity and consumer demand continues.

The main risks of inflation in Kazakhstan in the medium term are associated with stronger fiscal stimulus of the economy, further growth of domestic prices for fuel and lubricants, higher food inflation as a result of increasing prices on world markets and the emergence of imbalances in the domestic food market, as well as the incentives' winding down by central banks in developed countries.

**At the end of May 2021, the annual inflation rate** was 7.2%. The increase in prices for non-food products and paid services was partially leveled by disinflationary processes in the food market.

**Food inflation** continued to slow down and at the end of May 2021 amounted to 9.3% (9.8% in April 2021). Its current slowdown is associated with excluding from calculation of the high inflation base in 2020. Wherein, the price growth trend in some commodity markets continues. Additional pro-inflationary pressure is exerted by **the continuing rise in world food prices for 12 months**. In May 2021, there was a sharp increase in **the FAO food price index** - the value amounted to 127.1 points (an increase of 39.7%, y/y), due to a jump in prices for vegetable oils, sugar and cereals, with a moderate increase in prices for meat and dairy products.

**The non-food component of inflation** accelerated to 6.7% in May 2021 (6.4% in April 2021) as a result of rising prices for fuel and lubricants, clothing and footwear. The increase in the price of fuel and lubricants is due to the increase in producer prices, the recovery of economic activity and the delayed effect of the change in the excise tax rate in 2020.

The annual increase in prices **for paid services** to the population at the end of May 2021 was 5.1% (4.1% in April 2021). There is an increase in prices for utilities (electricity, garbage collection) and passenger transport services. At the same time, in April-May 2021, there is an increase in prices

for certain unregulated services amid the background of increased demand given the easing quarantine restrictions and mass population vaccination.

**The population's inflation expectations have decreased as a result of the reduction of uncertainty in the respondents' responses given the improved economic situation and mass vaccination.** In May 2021, the quantitative estimate of inflation for the year ahead was 6.6% (7.2% in April 2021). The share of respondents expecting the current price growth to continue over the next 12 months has increased to 42% (in April 2021 - 26%).

**According to the National Bank estimates, a decline in the inflation slowdown rate may result in outpace of the target range of 4-6% by the end of 2021.** The main factors of the inflation forecast revision were the increase in prices for fuel and lubricants based on the results of 5 months of 2021, the increase in tariffs of energy-producing organizations, as well as the preservation of external inflationary pressure. Wherein, the impact of the additional fiscal impulse associated with the republican budget refinement will be redistributed between 2021 and 2022. Given the non-anchored inflation expectations, a high probability of the secondary inflationary effects realization from short-term pro-inflationary factors is noted. This may eventually lead to a longer period of slowing inflation to the targeted range.

**In 2022,** the effect of the above-mentioned factors of the internal environment and the weakening of external inflationary pressure is expected to be exhausted. Inflation in China and the EU is not expected to reach its target levels, and inflation in Russia is expected to stabilize at 4%, given a gradual decline in world food prices. Given the high share of food and non-food imports from the main trading partner countries, the gradual stabilization of inflation in these countries will contribute to slowing down of inflation in Kazakhstan and its entering the target range of 4-6%.

**The situation in the real sector of the economy continues to gradually improve.** According to the results of January-April 2021, GDP growth was 0.7% in annual terms. A recovery in trade (an increase of 5.7%) and transport (a decline rate slowdown to -9.0%) is being observed. Growth acceleration is mentioned in manufacturing (7.7%), construction (12.5%), information and communications (11.1%).

**A recovery in consumer activity of the population is observed.** This is confirmed by the acceleration of the dynamics of retail turnover in January-April 2021, which for the first time since March 2020 entered the growth zone (6.2% YoY). The support for household consumption growth in the first quarter of 2021 was provided by a rise in real per capita income of the population by 3.4% as a result of a growth in salaries of employees and an increase in budget spending on pensions and scholarships.

**The situation in the global economy is developing positively.** Owing to the improvement in the epidemiological situation in the world due to the introduction of more than 2 billion doses of vaccine, a gradual easing of quarantine restrictions began in countries with a high level of vaccination. The given factor, along with the rapid current economic growth of a number of large countries, has led to a revision of the forecasts made by international organizations regarding the development of the world economy. The IMF raised its forecast for global economic growth from 5.5% to 6.0% for 2021.

**The IMF forecasts for the countries-trading partners of Kazakhstan were also revised upward.** As a result of the deployment of vaccination programs and the lifting of restrictive measures, the EU economy is expected to grow by 4.4% in 2021. According to the forecast, China's GDP will grow by 8.4%, but the pressure on economic growth may arise from the observed current supply problems

and rising raw material costs. In line with the forecasts the Russian economy will grow by 3.8% this year.

**The acceleration of inflationary processes in the main trading partner countries of Kazakhstan is observed.** In China, in April 2021, the annual inflation speeded up to 0.9%, while forming below the target of 3%. In the EU, in April 2021, price increases reached 2%, forming at the target level. In Russia, after a peak reached in March 2021 as a result of increased inflationary pressures due to expanding demand, the annual inflation in April 2021 settled at 5.5%. In the world's largest economy, the United States, inflation accelerated to 4.2%, reflecting the global trend of accelerating consumer inflation in view of the recovery in economic activity and continued fiscal stimulus.

**The situation in the global oil market continues to improve.** At the beginning of June this year Brent crude oil prices exceeded \$71 per barrel. Fundamentally, prices are underpinned by rapid growth in demand as a result of vaccinations carried out by countries, as well as a more restrained supply of oil from OPEC+ countries due to the decision to gradually increase oil production in the near term.

According to EIA estimates, as a result of the expected gradual increase in oil production in non-OPEC+ countries, the oil price will slightly decrease from current values after the second quarter of 2021. During 2021-2022, the price of Brent crude oil will be around \$60 per barrel.

Taking into account the current epidemiological situation in the world and forecasts of international organizations, **the National Bank**, under the baseline scenario of the current forecast round, **revised the price of Brent crude oil**, increasing it to **\$60** on average in 2021-2022.

**According to the updated forecasts of the National Bank, the estimates for the growth of the economy of Kazakhstan were revised upward.** In 2021, economic growth is expected at the level of **3.6-3.9%**, in 2022 - in the range of **4.0-4.3%**. The main factors behind the revision were the higher scenario oil price and the expansion of the positive fiscal impulse due to the upward revision of budget expenditures in the current year. A faster recovery of business activity in the economy and an increase in real incomes of the population will contribute to the expansion of aggregate demand, which will become a driver of economic growth. However, a restraining effect on the dynamics of GDP will be delivered from the gradual growth of imports. The recovery in exports in the second half of 2021 will be stipulated by an increase in oil production as OPEC+ restrictions are softened and an increase in external demand for Kazakhstan's export goods.

Further acceleration of economic growth in 2022 will be assisted by the maintenance of growth pace of domestic demand in light of an improving epidemiological situation and an expansion of exports as restrictions are further eased under the OPEC+ deal.

The current level of the base rate allows maintaining control over the dynamics of inflationary processes and ensuring a gradual decrease in annual inflation in the medium term. **The monetary conditions will strive to neutral values in the medium term as inflation slows down.**

The subsequent decisions on the base rate will be made in account of the compliance of actual inflation with its targets, the dynamics of inflation expectations, the rate of recovery in demand, as well as the balance of inflation risks in the domestic and foreign markets. In case of risks realization from the side of pro-inflationary factors and slower dynamics of disinflation in comparison with the forecast estimates, the National Bank will take a decision to tighten monetary conditions.

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 July 26, 2021 at 15:00 Nur-Sultan time.

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