

**Dear Maulen Sagatkhanuly!**

**Dear Senate members!**

Global and national economies in 2020 had their **deepest crisis** amid spreading coronavirus pandemic. Introduced lockdowns and strict quarantine restrictions have entailed significant contraction of economic activities worldwide, with the exception of China.

According to the IMF global GDP fell down by **3.3%** in 2020.

In these conditions, in order to support business activities and employment in Kazakhstan, the Government and the National Bank, on the initiative of the Head of State, have adopted **an unparalleled package of anti-crisis measures** making **9% of the GDP (6.3 trillion KZT)**, where 2.3 trillion KZT were financed by the National Bank. Funds have been allocated **to back up enterprises in affected sectors of the economy, ensure business activities and employment of population, reduce import dependence and increase food security** as well as to implement Nurly Zher state program.

Thanks to timely measures taken in 2020, the economy of Kazakhstan shrank by **2.6%**, which is lower than initial estimates of international organizations.

**Starting from the second quarter** of 2021, the national economy entered a positive growth zone, based on results of 5 months of this year GDP growth rate made **1.6%**. Recovery is

influenced by continuing revival of the service sector, ongoing high investment activities in non-extractive sectors of economy.

Maintenance of business activities in 2020 and economic recovery in 2021 were ensured due to **coordinated actions** of the Government and the National Bank, which pursued a **monetary policy adequate to existing conditions**.

### **1. MONETARY POLICY**

As part of ensuring price stability in 2020, inflation was kept within **8-8.5%** on the instruction of the Head of State and totaled **7.5%**.

Main contribution to growing inflation in 2020 was made by acceleration of food prices by **11.3%** as a result of disruption to supply chains in conditions of the state of emergency and quarantine measures both in Kazakhstan and in countries which are its key trading partners as well as increased demand for certain product groups. In the structure of inflation, non-food products in 2020 went up in prices by **5.5%**, paid services - by **4.2%**. Continuing **increase in global food prices** has been a major factor that has boosted the inflation since June 2020. As a result, this May, the UN FAO index reached its 10-year high of **127.1** points.

Annual inflation after stabilization at the beginning of this year at the level of **7.0%** in May accelerated to **7.2%**. Effect of slowdown in growing prices for **food products** was offset by a significant increase in prices for **non-food products** and **paid services**.

Food inflation **slowed down** from **11.3%** to **9.3%** in May this year due to withdrawal from the calculation of the high inflation

base in 2020, slowdown in rising prices for bakery products, meat and fruits and vegetables. Along with that, **disbalances** persist in certain commodity markets that affect prices.

**Non-food inflation** advanced to **6.7%** due to an accelerated growth in prices for clothing and footwear up to **5.9%**, and for gasoline - up to **12.7%**. Escalation of the annual growth pace of prices for non-food products was caused by increased import prices against the background of a gradual recovery in consumer demand and business activities. As a result, contribution of **fuels and lubricants, clothing and footwear** to rising prices for non-food products for 3 months **doubled** from **1.7 percentage points** in February up to **3.5 percentage points** this May

In May 2021, **prices for paid services** to population rose up by **5.1%**, mainly due to surging prices for **electricity, housing and utility services and air flights**.

**According to our forecasts, by the end of 2021**, taking into account growing prices for fuels and lubricants and electricity, stronger fiscal stimulation and heightened inflationary expectations, inflation **may be 40-50 p.p. above the target range**.

Key factors in formation of inflation are not yet stable. In case if **risks of pro-inflationary factors take place this year**, the National Bank will take a decision **to tighten monetary conditions**.

In 2022, it is forecasted that effect of increasing price in trading partner countries will exhaust and external inflationary pressures will weaken, among other things due to stabilization of the global food markets, which will contribute to **entry of**

**Kazakhstan's inflation into the target corridor of 4-6%. Monetary conditions**, as inflation slows down, will tend to **neutral values** over the medium term.

## **2. PAYMENT BALANCE**

In 2020, current account deficit of the payment balance amounted to USD 6.3 billion versus USD 7.3 billion a year earlier. **USD 1 billion** decrease in the negative current account balance is mainly attributed to reduction in income payable to foreign investors, as well as to inflow of foreign exchange from participants of Karachaganak consortium within settlement of the income distribution dispute.

In the first quarter 2021, **current account** of the payment balance was formed with a **USD 1.2 billion** deficit. The main reason behind the deficit is a declining export of goods with an increase in import flows.

**Exports** of goods diminished by **USD 2.9 billion** due to a falling oil export, which accounted for **48.5%** of total exports. The decrease resulted from relatively low oil prices in the fourth quarter of 2020, which, due to specifics of **accounting of oil exports** in official statistics, were reported in exports for the 1st quarter of 2021.

Imports grew by **4.8%** facilitated by increasing imports of consumer non-food and investment goods. Imports of goods are growing amid recovering business activities and deferred domestic demand. The largest increase in imports is reported in import of such goods as cars, clothing and computers.

**Dear Senate members!**

**Business activities are recovering** worldwide thanks to continuing large-scale fiscal stimuli from developed countries. Along with that, accelerated growth in demand is outstripping a recovery pace in supply, which creates **a deficit in a lot of commodity markets and increases pressure on prices**. In these conditions, central banks are starting to revise monetary conditions due to rising inflation and inflationary expectations.

The National Bank will continue to closely monitor the situation on the external and internal markets. As part of its monetary policy, the National Bank, in active cooperation with the Government, employs all the necessary tools to revive the national economy and ensure macroeconomic stability in 2021.

**Thank you for your attention!**