

Keynotes of NBK Deputy Governor Aliya Moldabekova Concerning KZT Devaluation Against Ruble Amid Rising Oil Prices

Recently, exchange rate of tenge against ruble has noticeably weakened. The parity of the ruble/tenge pair is increasingly shifting towards the new level - 6 tenge per ruble

The reasons for the strengthening of the ruble against tenge that began in the second quarter of this year, but accelerated recently

Indeed, since the middle of the second quarter of this year there has been a gradual weakening of tenge against the Russian ruble. Current quotes for the pair are keeping in the range of 5.98 - 6.00 KZT per ruble. The weakening of the national currency against the Russian ruble is happening due to a number of objective reasons.

First, as we have repeatedly noted, the rebound of economic activity and release of pent-up demand leads to an increase in imports. Import from Russia remains at a high level and constitutes 40.7% of total imports in January-August 2021, which is 6.3% higher compared to the same period last year.

Second, increased demand from businesses and residents supported by continuing fiscal incentives and improved disposable income leads to growing imports of goods from Russia. Imports from Russia reached \$4.2 billion in the second quarter of this year, which represents an increase of 36.1% compared to the second quarter of 2020. In the first quarter of this year the growth was 2.4%.

Thus, the increased domestic demand for imports of Russian goods causes a shift in KZT/ RUB parity towards weakening.

The pick-up in trading volume of tenge-ruble pair on the Kazakhstan Stock Exchange also point to an increased demand for Russian rubles: while the average trading volume was 1.9 billion rubles per month during the first quarter of 2021, it grew to 5.2 billion rubles in the third quarter. Net sales of rubles in exchange offices have also grown 26.6% since the beginning of the year.

Additionally, I would like to point out external factors. Delays in production increases in some countries provided a new impetus to the oil rally, which benefits both tenge and ruble. The price of oil on Monday surpassed \$86 a barrel amid reports that OPEC+ cut its production 15% deeper than planned due to delays with production ramp-up in Angola, Nigeria and Azerbaijan. In addition to the high price of oil, the Russian ruble is also supported by high gas prices and increased interest in the Russian debt market from foreign investors. Level of investments in Russian Federation bonds by non-residents has been increasing over the past 4 months and reached 21.4% in early September 2021.

It should be highlighted that National Bank does not target tenge-ruble parity and RUB/KZT rate will continue to be defined by market conditions.

Macroeconomic effects related to growing imports of goods from Russia

Increased domestic demand for Russian goods puts pressure not only on KZT exchange rate but also leads to an additional rise in consumer prices in Kazakhstan

through the import of accelerating inflation in Russia. Inflation in Russia rose to a 5-year record of 7.4% in September from 4.9% in December 2020. Food inflation in Russia rose to 9.2% in September, which also had an effect on food inflation in Kazakhstan.

Depreciation of KZT exchange rate against ruble and imported inflation that are taking place against the background of increased imports from Russia reflects the existing structure of Kazakhstan's economy and foreign trade and are among the reasons behind weak KZT appreciation despite positive dynamics of the oil market.