



NATIONAL BANK OF KAZAKHSTAN

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The base rate raised to 9.75%

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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 **9.75%** per annum with the interest rate corridor of **+/- 1.00** percentage points. Consequently, the rate for the liquidity provision standing facilities set on 10.75% and for the liquidity withdrawal standing facilities at 8.75%.

The decision was taken due to the continuing pro-inflationary pressure in the economy, resulted in inflation forming above the forecast range of 7.5-8.5% in 2021, rising prices in world markets, accelerating inflation in trading partner countries and high inflationary expectations within the country.

The external inflationary background remains unfavorable. It is stipulated by high world food prices, disruptions in supply chains, rising costs for transportation, raw materials and energy, as well as by the recovery of domestic demand. The FAO Food Price Index in September 2021 increased by **32.8%** year-on-year as a result of prices increase for all subgroups of food products.

Inflation in the main trading partner countries remains at an elevated level. In China, as a result of higher prices for coal and products of energy-intensive industries, the producer price index rose to 10.7%. Annual inflation in the EU in September this year accelerated to 3.6%, in Russia – to 7.4% and continues to accelerate, as evidenced by weekly inflation in October, which amounted to 7.8% in annual terms.

In Kazakhstan, in September 2021 annual inflation was 8.9%. Acceleration is observed across all the components. The main contribution to the acceleration of annual inflation continues to be made by the increase in food prices (4.5 percentage points out of 8.9%).

Food inflation in September 2021 continued to accelerate, despite the seasonal decline in prices for fruit and vegetable products and amounted to **11.5%** in annual terms. The main drivers of the acceleration of food inflation are the annual increase in prices for meat (10.3%), bakery (8.7%) and dairy products (8%) as a result of the increase in the producers' cost due to the increase in prices for fodder crops, diesel fuel, electricity and wheat. Additional inflationary pressure is exerted by the growth of world prices. In September 2021, the FAO index for meat increased to 26.3% in annual terms, for dairy products - 15.2%, and the increase in world prices for wheat was 41%.

Non-food inflation at the end of September 2021 amounted to 7.5% in annual terms. The main contribution to this acceleration is the annual increase in prices for household items, clothing and footwear, fuel and solid fuels. Prices for clothing and footwear are rising due to higher prices for imported goods, the recovery of consumer demand and the growth of real money incomes of the

population. In turn, the prices of fuels and lubricants and solid fuels increased due to the growth in costs and due to the recovery of economic activity.

The inflation of paid services accelerated in September 2021 to 6.8%. The dynamics is resulted from an increase in prices for regulated services by 5.6%, education services - by 8.4% and rental housing - by 18.6%. Among regulated services, an increase in the price of electricity by 8.3% and liquefied transported gas by 6.4% was noted in September.

Inflation expectations remain at an elevated level. At the same time, there is a gradual decrease from the maximum values recorded in July-August 2021. In September 2021, the quantitative assessment of inflation for the year ahead increased and amounted to **9.0%**. The share of respondents expecting the accelerating and remaining current rate of inflation decreased to 59% (in August – 61.5%). In the estimates of price dynamics in the past month, the share of respondents who noted a very high price increase also decreased from the maximum in July and amounted to 52% (in July – 65.7%).

The dynamics of the real sector development coincides with the expectations of the National Bank. According to the results of 9 months of 2021, GDP growth amounted to **3.4%**, following the optimistic scenario of the National Bank. The economic recovery continued amid the rising world prices on commodity markets and the easing of quarantine restrictions. Manufacturing, trade, construction, information and communications, and the public sector demonstrate high growth rates. In addition, for the first time since March 2020, there is a positive growth rate in transport. According to the optimistic scenario, economic growth this year will be 3.7-4.0%.

Consumer activity continues to recover confidently amid the improvement in the epidemiological situation. After a slight slowdown in July-August 2021, retail turnover recovered its growth rates and in September 2021 amounted to 5.6% in annual terms. In the structure of retail turnover, there was a more active dynamics of food trade with simultaneous entry into the growth zone of non-food goods turnover. The dynamic recovery of domestic demand is supported by the growth of nominal and real incomes. For 8 months, nominal income growth was 12.9%, real growth was 4.9%. High demand is reflected in the acceleration of consumer goods' imports. In 8 months of 2021, consumer imports increased by 23.9% to \$7.7 billion.

The current situation on the world oil market is generally assessed positively. World prices for Brent crude oil have risen to **\$86** per barrel for the first time since October 2018 amid a decline in global oil reserves due to **increased demand, rising prices for additional energy sources (gas, coal), as well as more restrained oil supply from OPEC+ countries.** Thus, from the beginning of the year to October 22, the price of Brent crude oil rose by 63%, and averaged \$69.3 per barrel.

According to EIA estimates, the growth rate of global oil demand will outpace its production until mid-2022, supporting the shortage of oil on the market. Starting from the second half of 2022, due to the expected increase in oil production in OPEC+ and non-OPEC countries, an excess of it may appear on the market, which may put pressure on oil prices. Thus, the optimistic scenario of the forecast round "August-September 2021" is being implemented, which assumes that the trajectory of oil prices is at the level of \$70 per barrel on the forecast horizon.

Following the developing countries, some central banks of developed countries are beginning to enter a cycle of tightening monetary conditions. Since the beginning of 2021, 31 central bank raised key rates, including developed countries as Norway and South Korea.

The Central Bank of Russia is actively continuing the cycle of tightening monetary policy, raising the key rate at the last meeting by 0.75 percentage points to 7.5%. This decision is justified by a significant deviation of the actual inflation from the forecast values. By the end of 2021, inflation in Russia is expected to be in the range of 7.4–7.9%. The regulator also notes that inflationary processes are becoming stable due to the fact that the expansion of domestic demand significantly outstrips

the possibility of increasing production. In these conditions, manufacturers transfer increased costs to prices. In turn, in this regard the inflation expectations of the population have increased, which have reached a five-year high.

External institutions do not expect a rapid decline in inflation. According to IMF forecasts, developed countries are expected maximum inflation values to be reached by the end of the year, followed by a return to pre-pandemic values by mid-2022. In developing countries, inflationary pressures will continue due to higher prices for food, oil and imported goods as a result of the exchange rates weakening. Ahead of the upcoming meeting, the US Federal Reserve notes that high pressure on prices would continue as the economy opens. According to the regulator, inflation will remain at an elevated level for longer than previously expected, before it starts to decline. In this regard, the inflation forecasts for 2021 have been adjusted upwards.

Under increased external and internal inflationary background, the National Bank continues to normalize monetary policy in order to enter the **4-6%** corridor in 2022. The achievement of this goal also depends on the effective implementation by the Government and local executive bodies of an Anti-Inflationary Response Package. The National Bank will continue to pursue a deflationary monetary policy, including on the basis of an analysis of the taken anti-inflationary measures effectiveness.

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 December 6, 2021 at 15:00 Nur-Sultan time.

More detailed information for mass media is available upon request:

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