



NATIONAL BANK OF KAZAKHSTAN

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The base rate remains unchanged at 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 observed signs of a slowdown in overall inflation, as well as increased uncertainty about the new strain of coronavirus – omicron and its impact on inflationary processes, external and domestic demand.

As a result of the outpacing growth of demand over supply opportunities, the trend towards accelerating inflation in many countries persists, despite the measures taken to curb price growth. In the main trading partner countries, with the exception of China, inflation is formed at historical highs. Price growth in Kazakhstan is also at high levels. A slight slowdown in food inflation and the inflation of paid services was offset by an acceleration in prices for non-food products. The increased inflationary expectations of the population strengthen the existing inflationary background. The domestic economy continues to recover actively given relatively high prices on commodity markets and the easing of quarantine restrictions.

Pro-inflationary processes in the world economy are increasing. This is due to the rapid recovery of global consumer demand, which is stimulated by the weakening of quarantine measures, high accumulated savings, as well as the realization of pent-up demand. Supply growth is still lagging behind rapidly growing demand due to supply constraints and material shortages.

Among the external factors, rising energy prices and disruption of global supply chains should be highlighted, which, despite some improvement in the situation in seaports, are still far from pre-covid levels. In November 2021, the Baltic Dry Index declined from its peak level in October. However, it is still **6 times** higher than the level of May 2020. An additional contribution to the acceleration of global inflation is also made by rising food prices, which is associated with a decrease in supply, worsening weather conditions in exporting countries, as well as increased freight prices. **The FAO food price index** in November increased by **1.2%** on a monthly basis, reaching the highest level since June 2011.

All these factors lead to a further acceleration of inflation in the world, including Kazakhstan's trading partners. Inflation in the EU and Russia is at historically maximum levels, amounting to 4.4% and 8.1%, respectively, in October 2021.

Pro-inflationary pressure from the external sector is reflected in the growth of domestic prices. According to the results of November 2021, **annual inflation** in Kazakhstan slowed down slightly and amounted to **8.7%** compared to 8.9% in October this year. This dynamics was due to a slowdown in the growth of prices for **food products** from **11.3%** to **10.9%** and **paid services** from **6.9%**

to **6.4%**. A significant contribution to the current slowdown in the growth of the food component was made by disinflation for oils and fats, sugar and eggs in the conditions of stabilization of monthly dynamics and a high base of the previous year. At the same time, in November 2021, prices for bakery products and cereals, meat products continued to rise, which is associated with increased costs of producers, a decrease in the gross harvest of grain crops.

In November 2021, annual **non-food inflation** accelerated from 7.8% to **8.3%** as a result of the continued growth of prices for fuels and lubricants, solid fuels. The annual growth of consumer prices for fuel and lubricants amounted to 22.3% (monthly growth - 4.3%): the cost of gasoline increased by 18.4% (2.4%), diesel fuel - by 46.6% (14.6%). The increase in the cost of fuel occurs due to the rising producer prices.

The annual growth rate of prices for **paid services** in November 2021 slowed to **6.4%**. This is due to a slowdown in the growth of prices for regulated utilities, catering services, hairdressers and personal service establishments. At the same time, the growth of rental rates has accelerated.

According to the National Bank's estimates, the seasonally adjusted annualized consumer price growth in recent months has shown a slowdown from the peak in June, amounting to 5.6% in November 2021 (in October – 7.1%). Monthly estimates of annualized core inflation indicate the formation of inflationary processes for the second month in a row within the target range of 4-6%. It is important how the dynamics of sustainable components will be fixed in the target corridor in December 2021 and in 2022. In this regard, there is high uncertainty about the stability of this dynamics with unstable and high inflation expectations.

Inflation expectations of the population have increased, putting additional pressure on prices. The quantitative assessment of inflation for the year ahead in November 2021 reached **10.8%**. 35% of respondents expect an acceleration in price growth in the next 12 months, which was the maximum value during observations. The perception of inflation in recent months has also remained at a high level.

The dynamics of economic activity is developing according to the optimistic scenario of the previous forecast round, rapidly recovering. This is happening due to high world prices on commodity markets and the easing of quarantine restrictions. GDP growth in Kazakhstan in January-October 2021 amounted to **3.5%** at an oil price of 69.3 US dollars per barrel for the same period. Mining and manufacturing, trade, construction, information and communications, transport and the public sector made a positive contribution. Agriculture has a restraining effect on economic growth, which showed a reduction in production for the first 10 months of 2021. The main reason for this dynamics was a decrease in the gross harvest of grain crops.

Economic activity is supported by the recovery in real household demand. In the second quarter of 2021, household consumption increased by 8.1%, amid the realization of pent-up demand for non-food goods and services. An additional factor in this growth in population demand is the effect of the statistical base of the second quarter of 2020, when demand was limited by strict quarantine measures, and the drop was about 16%. An indicator of the continuing positive dynamics of demand is the current expansion of retail turnover (by 6.1% in 10 months of 2021) and an increase in real incomes of the population (by 5.8% in the third quarter of 2021). At the same time, a full recovery in demand continues to limit periodic spikes in the spread of COVID-19, as was observed in late July and early September 2021.

A certain correction is being observed on the world oil market after a long rise in prices. In late November and early December, prices fell to \$ 65-66 per barrel due to concerns about the spread of a new strain of coronavirus. Despite the emergence of certain events that affect the growth of volatility in the market, the balance of risks does not shift towards the worsening. At the OPEC+

meeting on December 2 this year, it was decided to maintain the current parameters of the deal, providing for a planned increase in production by 400 thousand barrels per day.

The EIA estimates that global oil demand will remain strong until mid-2022. Oil supply will grow at a more moderate pace. The oil deficit will prevail on the market. Starting from the second half of 2022, oil supply growth will begin to outpace demand growth due to a decrease in OPEC + cuts and an increase in production by non-OPEC countries. Nevertheless, according to the estimates of international organizations, the oil market as a whole will be characterized by positive dynamics. This will mainly be driven by the normalization of the growth rate of the global economy as the post-pandemic recovery progresses. Saudi Arabia has increased its selling prices for oil with deliveries in January 2022 for Asia and the United States, which signals the confidence of the world's largest oil producer in the prospects for high demand in the oil market, despite the spread of a new strain of coronavirus.

Taking into account the current situation and forecasts of international organizations, the baseline scenario of economic development was increased from \$ 60 to \$ 70 per barrel, the optimistic one - to \$ 80 per barrel, and the pessimistic one - to \$ 60 per barrel.

According to the updated baseline scenario, the expected GDP growth in Kazakhstan by the end of 2021 remains at the level of 3.7-4.0%. The main contribution is expected from domestic demand and exports. Household consumption will continue to recover further amid growing household incomes and a brisk growth in consumer lending. The growth of gross savings will be associated with the growth of investments of enterprises in the main sectors of the economy. Additional support will be provided by investments in housing construction. At the same time, against the background of growing domestic demand, imports will restrain faster GDP growth. There will be a recovery in exports amid a gradual easing of OPEC + restrictions on daily oil production, as well as an increase in economic activity in trading partner countries. A negative contribution will be observed from the side of government consumption due to a slowdown in government spending on wages and the purchase of goods and services.

The GDP growth rate in 2022 has been revised down slightly and is expected to reach 3.9-4.2%. The revision is associated with a moderate increase in economic activity in the trading partner countries of Kazakhstan and a more negative impact of disruptions in global and local supply chains on the Kazakhstan economy. Economic growth will be facilitated by a gradual improvement in the epidemiological situation and an increase in energy production compared to 2021.

The trajectory of the output gap has been revised downwards compared to the previous forecast round. This relates to lower estimates on the growth of the components of aggregate demand and economic activity in general. In the medium term, the output gap will be at near-zero levels.

Taking into account the current dynamics of price growth, the National Bank expects that inflation will be in the range of 8.5-8.7% by the end of 2021. With further effective implementation of the Anti-Inflationary Response Package by the Government and local executive bodies, inflation will form close to the lower limit of the forecast range.

In the short term, the expected acceleration of inflation of non-food goods and services will be offset by a further slowdown in the growth of food prices. A moderate increase in the cost of paid services is expected, which will be due to the preservation of the current pricing in the market of regulated housing and communal services. The upward pressure on prices will be exerted by the preservation of the external inflationary background, the acceleration of inflationary processes in non-food markets, the recovery of consumer activity, high inflation expectations and the indirect effect of rising fuel prices through an increase in the cost of goods and services. There are also risks

of further growth of electricity tariffs against the background of the expected increase in coal prices. The peak of inflation is expected in the first quarter of 2022, after which there will be a gradual slowdown.

In the medium term, a higher external inflationary background is expected compared to previous estimates. This is due to the upward revision of inflation in the trading partner countries of Kazakhstan and higher dynamics of external food prices. A more restrained trajectory of the output gap will compensate for the influence of external factors on the medium-term dynamics of inflation.

In 2022, inflation is expected to gradually slow down to 6.0-6.5%, taking into account the continued implementation of the Anti-Inflationary Response Package. The decline in inflation will be supported by a high base formed in 2021. At the same time, the realization of pro-inflationary risks associated with imbalances in certain markets for goods and services, interruptions in global and local supply chains and persistence of high inflationary expectations, may lead to the formation of inflation above the forecast value in 2022.

The next decision will be taken by the National Bank given the dynamics of inflationary expectations, stable components of inflation, as well as the impact of the epidemiological situation on external and internal demand. With an unstable deceleration of expectations, inflation and its stable components, the National Bank will continue to tighten monetary conditions more decisively.

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 January 24, 2022 at 15:00 Nur-Sultan time.

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