

Dear Askar Uzakpayevich!

Dear colleagues!

Since the end of this November **volatility in global financial and commodity markets** has increased amid heightened uncertainty caused by a spread of the **new Omicron** coronavirus **strain** and growing **geopolitical** tension worldwide.

GLOBAL INFLATIONARY PRESSURE CONTINUES TO RISE

This November, inflationary pressures in the world have risen and may continue to swell as a result of persisting **high commodity prices** and **long delivery times**.

In the **largest economies** of the world, inflation has reached **new record highs**. Based on performance of this **October**, inflation in the **US** reached its **30-year highs** of **6.2%**; in **Russia**, inflation rose to **5-year** highs of **8.1%**. In the **Eurozone**, November inflation came to its **maximum** since the introduction of the euro, **4.9%**.

FAO food price index continues to grow for the **fourth month in a row**. It rose by **1.2%** and reached **134.4** points, the highest level since **June 2011**. The **largest appreciation** was recorded among **cereals** and **dairy** products as well as sugar. Meanwhile, prices for **meat and vegetable oils** slightly **declined** compared to the previous month.

In conditions of a growing **inflationary pressure**, **18** central banks of the world **raised** their **key rates** this November. Since the beginning of the year there are **38** such central banks. As a result, the **Global Monetary Policy Index** increased for the month from **5.28%** to **5.38%**.

Continuing development of inflation has enhanced market expectations for an **accelerated QE curtailment** and start of **rate hikes** in the US in 2022.

This creates risks of capital outflow from emerging markets, putting pressure on the **EM currencies** against the background of **USD strengthening**. According to results of this November, the USD **appreciated** by **2%** against currencies of developed countries, while EM currencies lost **4.4%**.

SLOWDOWN OF ANNUAL INFLATION IN KAZAKHSTAN FOR THE FIRST TIME IN 8 MONTHS

In **Kazakhstan**, following results of this November, annual inflation decelerated for the **first time in 8 months** from **8.9%** to **8.7%** amid a slowdown of the **food inflation** from **11.3%** to **10.9%** as well as paid services from **6.9%** to **6.4%**.

Monthly inflation in November was **0.7%** and formed below the **5-year average**.

Slowdown in food inflation is attributed to a **high base** of the previous year and efforts of the Government to **curb** price hikes for **socially important food products**. However, food inflation is still responsible for almost **one half** of contribution to the annual price rise - **4.3 p.p.** out of **8.7%**.

Fee-based services demonstrate **moderate** dynamics amid

discreetly growing **tariffs for regulated public utilities**.

Along with that, **pro-inflationary** impact causes a significant appreciation of energy resources, affecting **costs** of domestic producers. In particular, prices for **fuels** and **lubricants** surged by **22.3%** year-on-year, including by **18.4%** for **gasoline**, by **46.6%** for **diesel fuel**.

The National Bank estimates that **seasonally adjusted annualized growth** of consumer price in recent months has **abated** from its peak in June, reaching **5.6%** in November 2021. However, **high uncertainty** about **sustainability** of these dynamics persists.

In conditions of **decelerating** annual inflation and **growing uncertainty** associated with discovery of Omicron, new coronavirus strain, on **December 6** this year the National Bank decided to keep the base rate at **9.75%**.

Within November-December forecast round, the National Bank has **updated** forecasts of key macroeconomic indicators. Given release of **high 2021 base** and gradual reduction of external **inflationary pressure** during 2022, inflation is expected to **gear down** and its **peak** is anticipated in the first quarter at **8.8%** on average per quarter.

In line with the updated **baseline** scenario, with an oil price of USD **70** per barrel, inflation by the end of **2022** will be **6.0-6.5%**, taking into account effective implementation of the Anti-Inflationary Response Package.

HIGH OIL AND METAL PRICES WILL LEAD TO A BALANCE OF PAYMENTS SURPLUS

Within the forecast round, the National Bank has also updated estimates of the balance of payments indicators. In 2021, current account deficit is expected to be **(-)USD 4.2 billion**, a **34.7%** slump year-on-year. High oil and metal prices in the baseline scenario will entail a surplus of **USD 1.5 billion in 2022**.

Export of goods will soar by **18.6%** to **USD 70.4 billion** in 2022 due to higher prices for major exported commodities thanks to recovering global demand.

Imports of goods using the balance of payments methodology will increase by **6.8%** to **USD 40.9 billion** due to a growing demand from households and business as well as implementation of government programs and initiatives.

Deficit of the income balance will expand by **4.6%** to **USD 24.5 billion** caused by a **4.0%** growth of income of foreign direct investors connected with higher prices and production volumes of oil and metals.

Thus, improvement in the current account associated with escalating energy prices is constrained by **pressure** both from release of **pent-up demand** for imports and from growth of **payments** to foreign investors. This, in turn, creates extra **pressure on the foreign exchange market**.

DEPRECIATION OF THE TENGE AGAINST THE BACKGROUND OF A SIGNIFICANT IMPAIRMENT OF EXTERNAL FACTORS

In November of this year, **high volatility** was reported in global financial and commodity markets after the new coronavirus strain was identified and reports of its spread in the US and

Europe. This has also caused a sharp **drop of oil prices**. Global oil prices have declined to their lowest since the end of August – to **USD 65-66** per barrel.

The global currency market also witnessed global weakening of EM currencies. The **Russian ruble** lost 4.7% of its value over the month, the **South African rand** 4.3% and **Mexican peso** by 4.3%.

Deterioration of underlying factors caused **1.7%** depreciation of the tenge in November to **434.2** KZT/ USD. As of **December 8** of this year, tenge exchange rate was **434.46** KZT/ USD.

The national currency was supported by operations to convert funds of the National Fund for allocation of transfers to the budget and sales of the quasi-public sector.

Along with that, **tax period** did not **provide significant support** to the national currency because of the sufficient tenge liquidity from exporters.

In conditions of uncertainty and a sharp deterioration in external conditions, **demand** for foreign currency from households and legal entities has significantly **risen**. In order to prevent destabilizing fluctuations of the tenge, the National Bank for the **first time** since October 2020 carried out **foreign exchange interventions** during last days of this November for an amount of **USD 239 million**.

ASSETS OF THE NATIONAL FUND DRASTICALLY CONTRACTED AGAINST THE BACKGROUND OF STOCK MARKET ADJUSTMENT

Assets of the National Fund at the end of this November

made **USD 54.9 billion**.

In November, **USD 617 million** were sold to ensure allocation of target and guaranteed transfers for an amount of **310 billion KZT**. **Inflows** to the National Fund in November amounted to **657 billion** tenge, including **USD 1 billion** in foreign currency.

Investment income of the National Fund for this November was **negative** and stood at **(-)USD 541 million** or **(-)0.95%** mainly due to a decrease in portfolios of stocks and bonds of developed countries by **(-)2.11%** and **(-)0.64%** respectively.

Despite **high market volatility** because of the new coronavirus strain, **investment income** since the beginning of the year has **stayed positive** at **USD 1.4 billion**, or **2.52%**.

NBK GOLD AND FOREIGN EXCHANGE RESERVES SHRANK DUE TO DECREASING CURRENCY ASSETS

Gold and foreign exchange reserves at the end of **this November** totaled **USD 35.5 billion** with a decrease of **USD 309 million** for the month.

Gold portfolio reached almost **407 tons** and **soared** by **USD 267 million**.

Free convertible currency assets **contracted** by **USD 575 million** following **foreign exchange interventions**, **repayment of government debt** and **other transactions on government accounts**.

Gross international reserves made **USD 90.5 billion** with a **USD 435 million** decrease for the month.

TRANSFER OF PENSION ASSETS TO EXTERNAL MANAGEMENT PROVIDES DIVERSIFICATION AND

PROFITABILITY

Pension assets of the UAPF at the end of this November totaled **13.4 trillion** KZT, which is **3.7%** up since the beginning of the year.

On December 7 of this year, **636.6 thousand requests** of depositors for early withdrawal of pension savings were **satisfied** for an amount of **2.2 trillion** KZT. This included **2.1 trillion** KZT to solve housing issues.

Based on performance for 11 months of this year, **11.0% profitability** was obtained with an inflation rate of **7.8%**. Thus, since the beginning of this year, UAPF investors were provided with a **real return** of **3.2%**.

DIGITAL TENGE PROJECT IS UNDERWAY

The National Bank is actively implementing its program **to develop digital infrastructure** of the financial sector and introduce **financial innovations**. One of key initiatives of this year is a **pilot project** to implement **national digital currency - Digital Tenge**. The project is underway jointly with financial market participants and international partners. Today, **63 Central Banks** pro-actively study emission and circulation of national digital currencies around the globe.

In 2021, research of the National Bank focused on aspects of **retail digital currency** of the Central Bank. Today, development of a prototype of the **digital tenge platform** has been **completed**, a series of discussions have been held with market participants and international organizations. **Intermediate results of the pilot project** were presented at the IX Congress of

Kazakhstan Financiers.

On December 15, 2021, **final report** on results of the pilot project will be released.

On the instructions of the Head of State, **by July 1, 2022** the National Bank will develop a **decision making model** for introduction of the digital tenge with an assessment of benefits and costs. **In December 2022**, a final decision will be made on the need to introduce **digital tenge**.

Dear Askar Uzakpaevich!

In order to implement instructions of the Head of State to cut inflation down to **8.5%** by the end of this year given the **slowdown** in the annual growth of prices in **November** of this year from **8.9%** to **8.7%**, monthly inflation this December must make **0.7%**, along with that this parameter was **0.8% on the average for 5 years**.

Thank you for your attention!