



Press-Release №2

The base rate was raised to 10.25%

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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 **10.25%** per annum with the interest rate corridor of +/- **1.00** percentage points. Consequently, the rate for the liquidity provision standing facilities set on 11.25% and for the liquidity withdrawal standing facilities at 9.25%.

The decision was made due to the need to reduce inflation expectations and inflation entry into the established target range of **4-6% by the end of 2022**. In most economies of the world, including the countries-the main trading partners of Kazakhstan, inflation continues to be at elevated levels. The internal conjuncture, despite the presence of disinflationary processes in recent months, is characterized by the presence of significant pro-inflationary risks both on the demand side and on the supply side.

Inflation in the world's largest economies and major trading partner countries remains at high values. In the United States, for the first time since 1982, inflation rose to **7.0%**. Consumer inflation in the EU in December 2021 rose to **5.3%**, in Germany - for the first time since 1992 to **5.7%**. In China, price growth reached a 15-month high in November 2021 (2.3%), then declined to **1.5%** in December 2021. In Russia, inflation in December 2021 remained at the same high level - **8.4%**.

There is a slight slowdown in price growth on the world food market. The FAO food price index in December 2021 decreased by 0.9% compared to the previous month (growth in November – 1.3%) because of lower prices for all subgroups of food products, except for dairy products. At the same time, in annual terms, the growth of the index was **23.1%** (annual growth in November – 27.8%). According to the estimates of the National Bank, **in the 1st half of 2022**, amid the uncertainty in food markets and a weak wheat harvest in the northern hemisphere, **prices are expected to rise** in certain segments of the world food market, further within the situation of COVID-19 stabilization and the beginning of a new agricultural season, the growth rate will **gradually slow down**.

In Kazakhstan, annual inflation decreased to 8.4% in December 2021. Under the implementation of anti-inflationary response measures, the monthly price growth rates in November-December 2021 were lower than the historical average.

Food inflation in December 2021 decreased significantly and amounted to **9.9%** in annual terms. This is due to the implementation of anti-inflationary response measures and the release of high monthly values for certain food products from the calculation of annual inflation. Annual inflation is observed for dairy products, eggs, butter, sugar and vegetables. Despite this, the annual growth rates of the cost of fruit and vegetable products still remain at high levels. By the end of 2021, the price increase for beetroot was 73%, cabbage - 37.5%, carrots - 29.5%, potatoes - 20.2% in annual

terms. There is an acceleration in annual inflation for meat, bakery products and cereals, as well as soft drinks.

A significant slowdown in food inflation is accompanied by an acceleration of the **non-food component to 8.5%** by the end of December 2021. The current high value of annual non-food inflation is observed for the first time since May 2018. The main contribution is made by the increase in prices for fuel and lubricants (23.2%), cars (14.7%) and solid fuel (9.5%), including coal (9.8%). The annual increase in gasoline prices accelerated to **19.6%**, diesel fuel - by **46.5%**.

The annual inflation of **paid services** in December 2021 slowed to **6.5%** (October 2021 - **6.9%**, December 2020 - **4.2%**) amid the more moderate increase in prices for regulated utilities, hairdressing salons, restaurants, and hotels. The growth of tariffs for regulated utilities slowed slightly to **4.1%** as a result of lower tariffs for central heating and hot water. At the same time, the growth rate still exceeds the level of December 2020. The active growth of the cost of renting housing continues (19.8% in December 2021). Also, due to increased demand in December 2021, there was a sharp increase in prices for certain types of transport services.

The trajectory of core inflation indicates the instability of the slowdown in inflationary processes. Various estimates of core inflation after slowing down in August-November 2021 again demonstrate acceleration in December 2021, having formed above the target corridor. This is due to the high rise in prices for unregulated goods and services.

Inflation expectations, despite a slight decrease, remain at an elevated level. In December 2021, the quantitative estimate of inflation for the year ahead was **10.3%**. The majority of respondents (**66%**) still expect the current price growth to continue or accelerate in the next 12 months. Among them, the share of those expecting further price growth has slightly decreased from the historical maximum level of **35%** in November to **31%** in December 2021.

Consumer demand continued to maintain a positive trend, as evidenced by the dynamics of retail trade and consumer imports. Retail trade turnover from January to November 2021 maintained a positive trend, amounting to **6.5%** in the first 11 months of 2021. In 2021, non-food products made a significant positive contribution to the retail trade turnover, in addition, since the middle of the year, there has been a recovery in the turnover of food products. The pent-up demand realization and the dynamic growth of trade turnover was accompanied by double-digit growth rates of consumer imports, which grew by **21.8%** in the first 11 months of 2021.

Household consumption in 2021 was supported by the realization of pent-up demand and an increase in real incomes of the population. According to the results of January-November 2021, the growth of real incomes amounted to **3.1%**. Some adjustment to the further dynamics of demand was made by the state of emergency in the country, as well as the observed increase in cases of infection with the Omicron strain.

A significant increase in the money supply as a result of the implementation of state programs to support the economy leads to pro-inflationary pressure in the economy and has a negative impact on the stability of the foreign exchange market. The implementation of these programs accelerated the economic recovery to the pre-pandemic level, but at the same time led to the expansion of the monetary base from the beginning of 2020 by **1.6 times** to **11.0 trillion** tenge, the money supply increased by **41.2%** to **30.1 trillion** tenge over the same period. To reduce the impact of this factor on inflation, the National Bank **has already started withdrawing** from state programs to support the economy, **having completed financing 5 of them in 2021** (the Program of preferential lending to entrepreneurs, the Employment Roadmap, Nurly Zher, the Program of preferential car loans and the mortgage program "Baspana Hit"). In **2022, it is planned to complete** the financing of the program "Economics of simple things" and the mortgage program "7-20-25".

The current situation on the world oil market, despite the spread of the virus, is assessed as moderately positive. In December 2021, the price of Brent crude oil rose by 10.2% to **\$77.8** per barrel amid positive expectations for demand in the hydrocarbon market, a decline in global oil reserves and a restrained increase in production by OPEC+ countries. As a result, the average oil price for 2021 was **\$70.9** per barrel.

On January 4, 2022, OPEC+ decided to continue increasing production by the planned 400 thousand barrels per day in February 2022. While maintaining the current pace of expansion, the restrictions adopted in 2020 may be completely lifted by the end of September 2022. OPEC+ expects that the spread of the Omicron strain will have less impact on global demand than previously expected. Amid the stronger demand and supply disruptions as a result of an attack by rebels from Yemen on the UAE oil infrastructure in January this year, the price of Brent crude oil **exceeded \$89** per barrel. However, in recent days, the price of oil has adjusted to \$87 per barrel after a slight increase in oil reserves in the United States. According to the updated EIA estimates, the oil price for 2022 has been increased from 70.1 to 75 US dollars per barrel. It is expected that the average monthly oil price during the year will gradually decrease from 78-79 to 70 US dollars per barrel by the end of the year.

Despite the high rates of infection with the Omicron strain and a record daily increase in new cases in the world (3.77 million people per day according to WHO data as of January 20 this year), the new strain is characterized by a lower level of hospitalization and mortality, which reduced market concerns and led to a recovery in energy prices.

Due to the growth of inflationary processes, developed economies continue to tighten their policies. In 2021, 78% of all decisions of the world's central banks were aimed at tightening monetary conditions. To stabilize the growth of consumer prices, the head of the Federal Reserve at the US Senate hearing said that they were going to stop buying assets in March 2022. Against this background, market participants expect 3-4 rate hikes during 2022 starting from March this year. Due to increased inflation, the ECB will soon also stop buying some assets.

As a result, expectations for tightening global monetary conditions are already leading to an outflow of non-residents from government securities of the Republic of Kazakhstan from a peak of 863 billion tenge in October 2021 to 596 billion tenge in December 2021. At the same time, the data for the first 2 weeks of this year indicate that the share of non-residents in the NBK notes decreased from 10.5% on January 6 this year to **7.4%** on January 14 this year.

The World Bank estimates that global consumer price inflation will peak in the first half of 2022, and then gradually decrease during 2023. The slowdown in global growth and the expansion of commodity supplies will contribute to the reduction of inflation in the world.

Given the development of the situation in the global economy and current internal factors in Kazakhstan, according to the updated forecast, the National Bank expects a further slowdown in inflation to the level of 6-6.5% by the end of 2022. At the same time, due to the tragic events in Kazakhstan at the beginning of January this year and the relatively low base of the 1st half of 2021, an increase in inflationary processes is possible, **the main pressure** of which will fall on the **1st quarter** of this year. In the 2nd half of this year after expiration (180 days) measures of temporary regulation of prices for socially important food products, fuel and utilities may increase the risks of accelerating inflation.

Based on the current balance of risks, the inflation slowdown instability at the end of 2021, including due to the acceleration of the non-food component, as well as increased inflation expectations, the National Bank continues to tighten monetary policy. Along with the **effective implementation** of the Set of measures being developed by the Government to control inflation, the

disinflationary monetary policy of the National Bank will reduce inflation in accordance with the target set for 2022 – 4-6%.

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 March 9, 2022 at 15:00 Nur-Sultan time.

More detailed information for mass media is available upon request:

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