



## Press Release № 15

### The base rate remains unchanged at 14%

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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 14% per annum with the interest rate corridor of +/- **1.00** percentage points. Consequently, the rate for the liquidity provision standing facilities set on 15% and for the liquidity withdrawal standing facilities at 13%.

The decision takes into account the current balance of risks of inflation in the short and medium term, as well as the updated forecasts of the National Bank. This level of the base rate in the absence of new shocks will ensure a smooth decline in inflation by 2024. Normalization of monetary conditions will occur as the inflationary processes slow down in 2023.

**In May 2022, annual inflation continued to accelerate, amounting to 14%.** Acceleration of all components of the consumer price index is observed. The largest contribution to annual inflation continues to come from rising food prices. Amid disruptions in logistics supply chains and steady demand, the upward trend in prices for goods with a high import component continued. Inflation was restrained by the moratorium on price increases for regulated utilities and fuels and lubricants.

Although monthly inflation continued to slow down in May to **1.4%** (2% in April), **it is still high and above the historical average.** The low deceleration rate of monthly inflation is associated with both steady domestic demand with a positive fiscal impulse and elevated inflation expectations.

Quantified inflation expectations for the year ahead in May 2022 amounted to **11.7%**. In April-May this year, after a sharp increase in March, inflation expectations for the year ahead slightly decreased. The respondents expecting an increase in prices on the horizon of one year linked formed expectations to a rise in the cost of food. The perception of inflation also remains at a high level.

**The economy is growing faster than expected.** In January-April 2022, GDP growth was 4.4%. Despite the geopolitical situation in the world and the accident at the CPC oil pipeline, the economy continued to grow. Amid the rise in world prices for raw materials and the lifting of quarantine restrictions, all major sectors of the economy demonstrated high growth rates.

Consumer demand indicators reflect positive dynamics. Thus, in April of this year the growth of retail turnover recovered after a significant decline due to the January events in the country. In particular, the food products turnover recovered after its fall to the negative zone in the first quarter of this year. Continuing growth of consumer crediting caused a rapid recovery of non-food turnover in February with further acceleration in April of this year.

After a slight slowdown at the end of 2021, the growth of investment in housing construction accelerated in the first quarter of 2022, which is due to the high demand of the population due to the increased volume of early withdrawals of pension savings to improve housing conditions. Against this background, prices in the real estate market in annual terms continue to maintain an upward trend.

**The global economy is expected to grow weaker than previously expected.** In 2022-2023, the world economy will grow by 3.6% (the previous IMF forecast for 2022 was 4.4%, for 2023 – 3.8%).

*Consensus Ecs.* expects Russia's economy to contract by 9% in 2022 and 1.4% in 2023. China's growth rate will slow to 4.7% in 2022 and 5.1% in 2023. The EU economy is expected to grow at 2.8% in 2022 and 2.3% in 2023.

**Inflation in the trading partner countries continues to accelerate.** Inflation in the Eurozone accelerated in May 2022 to 8.1% amid rising energy prices, with peak inflation expected in the second quarter of 2022. Inflation in Russia in April this year was 17.8% against a background of rising food and non-food prices. In China, inflation is also projected to accelerate further from the current level of 2.1% in April 2022, but at a more moderate pace due to weak growth in consumer activity.

Despite a slight decline for the second month in a row, **FAO food price index** remains close to the record levels, amounting to 157.4 points in May of this year. In May, there was a decrease in prices for vegetable oils, dairy products and sugar. At the same time, the sub-indices of prices for grains and meat increased.

**High oil prices in the global market are supported by** a partial EU embargo on oil from Russia, and simultaneously restrained by fears of a re-quarantine in China due to the spread of the coronavirus. The pressure of high energy prices and the winding down of stimulus programs by the central banks of the leading economies is expected to dampen demand to some degree in the future. By the end of 2022, due to the expected increase in oil production in the US and OPEC+ countries (due to the termination of the agreement by the end of 2022), prices are likely to decline slightly. Thus, in 2022, the average oil price is expected to be around \$100 per barrel, and in 2023 it is expected to be around \$90/barrel. Given the forecasts of international organizations and factors affecting the future trajectory of oil prices, the price of Brent crude oil under the **baseline scenario is set at \$90/bbl until the end of the forecast.**

**According to the updated forecasts of the National Bank, economic growth in Kazakhstan in 2022 will be at 2.8–3.8%.** Dynamic GDP growth rates will be associated with the already established high actual growth for January-April 2022, as well as the expected positive dynamics in all major sectors of the economy until the end of the year. However, the geopolitical crisis, weakening external demand and restructuring of supply chains will restrain the acceleration of economic growth. Possible problems in accessing the international export markets of Kazakhstan against the background of geopolitical uncertainty are the risk to the GDP forecast, which, if implemented, may have a negative impact on the revision of GDP growth forecast towards lower rates.

In 2023, GDP growth is projected to accelerate to 3.5–4.5%. Economic growth will be supported by the expected normalization of export and import supply chains coupled with a reduction of uncertainty in the economy, a significant increase in energy production compared to 2022 due to the easing of OPEC+ restrictions and the anticipated end of the oil-producing countries' deal. The continued positive dynamics of domestic demand will also provide support. In 2024, the economy is projected to continue growing on the background of the exhaustion of the negative impact of shocks and a significant increase in oil production, provided large oil and gas projects are implemented.

**Given the current decision on the base rate, inflation by the end of 2022 is projected at 13–15%.** The greatest rise in prices is expected for food products, taking into account the dynamics of prices on foreign and domestic food markets. There are significant risks of a sharp rise in prices for regulated utilities in the second half of 2022 due to the end of the moratorium on their increase, as well as growth in prices for market services in the context of high inflation expectations. This forecast was formed taking into account a set of measures of the Government to control and reduce the level of inflation, the successful implementation of which will allow inflation to fall to the lower boundary of the forecast.

**In 2023**, inflation will gradually slow down to 7.5–9.5% amid the high inflation base of 2022, the decision made on the base rate, the gradual reduction of external inflationary pressure, and the planned implementation of the countercyclical budget rule. In the absence of both external and internal new shocks **in 2024**, inflation will still be outside the target corridor, while it is projected to **slow down to its upper limit**.

The main risks of inflation acceleration are related to uncertainty regarding the background of geopolitical situation in the world, probability of capital outflow from developing markets in favor of developed markets, import of external inflation, in particular from Russia, as well as the risks from supply factors and unanchored inflation expectations. Another important risk of the forecast is the possible upward revision of the budget expenditures compared to the parameters provided by the Law on the Republican Budget for 2022–2024.

Further decisions on the base rate will be taken subject to the conformity of the actual dynamics of inflation with the forecasted trajectory and the emerging balance of risks in the external environment and the domestic economy.

The next scheduled decision of the Monetary Policy Committee of the National Bank of Kazakhstan on the base rate will be announced on July 25, 2022 at 15:00 Nur-Sultan time.

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