



NATIONAL BANK OF KAZAKHSTAN

Press Release

The base rate was raised to 14.5%

July 25, 2022

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 **14.5%** per annum with the interest rate corridor of +/- **1.00** percentage points. Consequently, the rate for the liquidity provision standing facilities set on 15.5% and for the liquidity withdrawal standing facilities at 13.5%.*

Actual inflation significantly exceeded the forecasted trajectory against the background of accelerating inflation expectations. Both the stable component of consumer prices and the general price level are growing. The inflation rate in May and June of this year shows that its peak has not been passed. High inflationary expectations increase the pro-inflationary pressure. According to estimates of the National Bank, inflation by the end of 2022 will exceed the previous forecast. In the absence of new shocks, annual inflation growth will continue until the first quarter of 2023 and will slow down thereafter. The current decision aims at stabilizing and slowing down inflationary processes and expectations in 2023 and bringing inflation closer to the target in the medium term. The persistence of ongoing inflation processes, fiscal demand stimulation and the external pro-inflationary background require maintaining the base rate at current levels for a prolonged period to stimulate the savings behavior of the population, which will gradually affect inflation over the next year.

In June 2022, annual inflation accelerated to 14.5%. Prices are rising for all its components, particularly, food products (19.2%), non-food products (13.2%) and paid services (9.2%). This is the result of cost-push inflation due to supply chain disruptions, increased external inflationary pressures, strong demand supported by fiscal stimulus, as well as weakening of the tenge. Core inflation began to accelerate again, outpacing overall inflation and indicating prevalence of sustainable price growth factors. Inflation expectations also demonstrate acceleration. For instance, in June 2022, the median estimate of expected inflation over a one-year horizon rose to 14.9% (the same being 13.8% in May).

Given the formation of actual inflation and inflation expectations at higher levels in May-June, the National Bank expects acceleration of annual inflation in 2022 above the upper bound of the previously announced forecast of 13-15%. A new assessment will be made upon the results of the next forecast round.

Over the first half of 2022, the economy grew by 3.4%, overall in line with National Bank forecasts of 2.8-3.8% by the end of 2022. All major sectors of the economy are growing, but some sectors show a slowdown. Thus, the growth of the mining industry slowed down due to the repair work at the Kashagan field. At the same time, trade indicators show stable demand, despite the acceleration of inflationary processes. Aggregate demand is driven by strong government spending, which is growing at an annual rate of 18.7% in June. This is a significant pro-inflationary factor and requires appropriate adjustment of monetary conditions.

Global economic growth forecasts have been revised downwards. The World Bank has reduced the projected growth of the global economy in 2022 from 4.1% to 2.9%. Forecasts of growth for trading partners of Kazakhstan were also lowered: for Russia from 2.4% to -8.9%, for the EU from 4.2% to 2.5%, for China from 5.1% to 4.3%. The risks of a weaker global economy due to geopolitical conflict, probable strengthening of quarantine in China, failures in the supply chain remain.

The oil price rally resumed after some pressure at the beginning of July 2022. Oil prices are supported by some weakening of the U.S. dollar from peak levels and limited oil inventories. With the worsening outlook for global economic growth, the EIA estimates Brent price will average \$104 per barrel in Q3 2022, \$95 per barrel by the end of the year, and above \$90 per barrel in 2023.

The global inflationary backdrop remains high, while external monetary conditions are tightening. The FAO Food Price Index fell 2.3 percent in June, mainly due to vegetable oils, grains and sugar, but is still 23.1 percent above last year and near historic highs.

In June 2022, annual inflation in the U.S. and the EU due to rising energy and food prices broke through a historic high again, reaching 9.1% and 9.6%, respectively. Amid heightened inflationary pressures, the U.S. Federal Reserve raised its June 2022 rate immediately by 0.75 p.p. (the first since 1994) to 1.5%-1.75% per year and is signaling further hikes this year and next. The ECB, in turn, raised its interest rate by 0.5 p.p. for the first time in 11 years. At the same time, the regulator reported the likelihood of further rate hikes in the coming months.

The next decision on the base rate will be made based on the results of the summer forecasting round and the updated forecast trajectory of macroeconomic indicators, the 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 September 5, 2022 at 14:00 Nur-Sultan time with a press briefing on the same day at 16:00.

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