



NATIONAL BANK OF KAZAKHSTAN

PRESS RELEASE

The base rate remains unchanged at 14.5%

September 5, 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 +/- **1.0** 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%**.*

The decision was made taking into account the emerging economic situation, the balance of risks, as well as updated forecasts of the National Bank. The pressure from the external sector remains, which is caused by growth of the cost of logistics services, high inflation in the countries being the Kazakhstan's trading partners and weakening of the exchange rate of tenge against ruble. At the same time, global food prices are declining. Among the domestic drivers of price growth, fiscal stimulus should be singled out, which restrains the decline in food prices following the global markets and puts upward pressure on the demand side in the medium term.

High inflation is driven by the ongoing adaptation of domestic prices to external price shocks, which at this stage does not require additional tightening of monetary conditions. In addition, the effect on the economy of a significant increase in the base rate since the beginning of 2022 has not yet fully manifested itself, and an appropriate assessment is needed to adjust measures in the future. The current level of the base rate is sufficient to ensure stability of the financial market and maintain the savings activity of economic entities.

In August 2022, annual price growth accelerated to 16.1%. The growth of inflation is observed in all components: food products increased by 20.8%, non-food products - by 15.5%, paid services - by 10.1%. Among goods and services, the cost of a number of household goods, sugar, flour, cereals, pasta products, as well as housing rent increased. A decrease in prices is mainly observed for a wide range of fruit and vegetable products.

Inflation expectations remain high. In August 2022, the median estimate of expected inflation was 16.5%. The percentage of respondents expecting the inflation rate to remain the same or increase in a year has risen to 55%.

The risks of further development of global economy are worsening. According to IMF forecasts, the world economy will slow down from 6.1% in 2021 to 3.2% in 2022 and to 2.9% in 2023 (the previous IMF forecast for 2022-2023 was 3.6%). Forecasts for Kazakhstan's main trading partners (EU, China, Russia) for 2022-2023 are also worsened.

External food inflation continues to decline. The FAO Food Price Index decreased by 1.9% in August 2022 (down 9% in July) due to a decrease in all components that make up the index. The decline in cereal prices was partly due to an agreement between Ukraine and the Russian Federation to unblock Ukraine's main Black Sea ports and the harvest in the northern hemisphere, which contributed to an increase in supply. In view of the good, according to the FAO, forecasts for the world harvest, the increase in the global supply of grain is expected to contribute to a further decline in prices.

Global consumer inflation continues to be high. In the EU, annual inflation accelerated to 9.8% in July 2022. In the U.S., inflation slowed to 8.5% as a result of some decline in oil prices. IMF global inflation forecasts for 2022-2023 envisage faster price growth than previously expected.

Oil prices are expected to remain high in the global oil market. According to the forecasts of international organizations, in the short term, due to high prices for gasoline and other energy sources, demand is likely to decline slightly. Oil production will gradually increase, but this effect will be offset by weaker oil production in Russia and the Middle East. In 2022, Brent crude oil prices are expected to average \$105.3 per barrel, and \$90.3 per barrel in 2023. Given these factors and projections, the baseline scenario assumes a trajectory of a gradual decline in the price of Brent from current levels to an average of \$90 per barrel in 2023 and \$85 per barrel in 2024.

National Bank forecasts for economic growth in Kazakhstan in 2022 have been revised amid a slowdown in business activity. Based on the results of the current year, GDP dynamics will slow down to **2.5-3.5%** amid the expected scheduled repairs at the major fields and the continuing uncertainty at the CPC. Positive contribution from all components of demand is expected. A significant contribution will be made by real exports amid the established high base of the first quarter and recovery of growth rates by the end of the year after some reduction in the second and third quarters of 2022.

The medium-term estimates demonstrate strong export growth on the back of oil production growth in 2023-2024. An additional impetus will be the growing dynamics of consumer demand in the face of rising government spending. At the same time, high dynamics of imports, which will be a consequence of fiscal stimulus, will partly offset the growth of domestic demand. GDP growth is projected to accelerate to **4-5%** in 2023. In 2024 GDP growth will be at the same levels.

Given current assumptions, inflation is projected to be in the range of 16-18% by the end of 2022. This is higher than previous estimates of the National Bank. Food products will continue to make the main contribution to the growth of prices, taking into account the dynamics of prices on foreign and domestic food markets. Significant inflationary pressure will be observed against the background of positive fiscal impulse, high external inflation, weakening of tenge and restructuring of logistics and production chains. An additional factor is high, unanchored inflation expectations.

In 2023 inflation will gradually slow down to 7.5-9.5%. Inflation will be restrained by a decline in the FAO grain index, the high base of inflation in 2022, and a faster than previously expected slowdown of inflation in Russia. In the absence of new external and internal shocks, inflation in 2024 will be in the range of 5.5-7.5%.

The following decisions on the base rate will be made depending on the conformity of the actual dynamics of inflation to 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 October 24, 2022 at 14:00 (Nur-Sultan time).

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