



**NATIONAL BANK OF KAZAKHSTAN**

**PRESS - RELEASE №43**

**Decision on the base rate of the National Bank of Kazakhstan**

September 2, 2015

Almaty

The National Bank of Kazakhstan has set its base interest rate, the one day (overnight) repo rate, at 12%.

This policy rate is the reference rate. It is aimed at anchoring nominal money market rates and will form the key instrument of monetary policy, supported by open market operations under the new inflation targeting regime. Now that the exchange rate for the tenge is floating, the National Bank's interest rates will be used to keep consumer price inflation in its target corridor. The National Bank reserves the right to participate on the foreign exchange market in order to ensure financial and price stability.

The National Bank sets its base rate target at the level most likely, in its judgment, to produce the inflation target within the corridor of 6-8% in the medium term. Because of the long lags between changes in the monetary policy and inflation outcomes the level of the base rate set today has limited effect on inflation in the near term. The setting today is chosen to achieve the medium term target, but it is subject to review and adjustment. The National Bank will use its policy instruments to maintain market liquidity consistent with its target for the base rate. It will auction securities to the market when liquidity is excessive and will buy them when liquidity is deficient. In addition, the NBK standing lending and deposit facilities will be available without limitations to banks for depositing funds at 12-5% (where 12% is the base rate) or borrowing them at 12+5%.

The National Bank expects that in the short term inflation will raise above its medium term target because of the increase in the price of imports from the recent exchange rate depreciation. In the medium term, however, the current base rate is expected to produce the inflation rate within the corridor of 6-8%. However, should inflation expectations rise, the National Bank will tighten its monetary policy by increasing the base rate.

The current base rate is set taking into account contemporaneous economic events and their likely persistence, but the primary target is medium term inflation and the rate is not set in reaction to short term disturbances. International Monetary Fund expects the global economy to grow by 3.3% in 2015. The slowdown in global economic growth and the associated decline on commodity prices have led to weaker currencies in China and Russia, Kazakhstan's major trading partners. In addition, the strengthening of the US dollar due to the expected increase in the federal funds rate as well as depreciation of the euro requires quick adaptation to external conditions.

The decline in growth of domestic economy will dampen the short-term inflationary pressures. Weaker demand from Kazakhstan's major trading partners and the drop in oil prices have led to a slowdown in real GDP growth of Kazakhstan to 1.7% in the 1<sup>st</sup> half of 2015 (3.9% in 1<sup>st</sup> half 2014). This year, real GDP is projected to grow by 1.5%.

The expected moderate growth of the global economy as well as low prices of commodities will reduce prospective growth from the foreign sector and affect the balance of payments negatively. The likelihood of this scenario is taken into account in the base rate settings.

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