



NATIONAL BANK OF KAZAKHSTAN

P R E S S - R E L E A S E # 9

On the base rate

May 5, 2016

Almaty

The National Bank of Kazakhstan has decided to lower the base rate to 15% with a band of +/- 1 percentage points from the base rate. Since the last decision on rate (March 14, 2016), the balance of risks between price stability and financial stability has improved, thus weakening the case for high interest rates. As assessed by the National Bank, various metrics of expected inflation began to show signs of abating, the recovery of market confidence in tenge-denominated assets gained strength, and the cost of hedging foreign currency risks have declined.

Recent trends were shaped, in part, by the National Bank's commitment to the policy of free float, as well as the success in consolidating money market rates at a level that ensures demand for tenge-denominated assets.

Most recent annual consumer inflation (for the 12 months ending April 2016) remains high at 16.3%, but a total of 10.4% came from just three consecutive months from October to December, during which the pass-through of exchange rate was most significant. By now, we estimate, the pass-through to tradables has largely run its course, while the inertial price adjustment process in regulated utilities and other non-tradables continues. Seasonally-adjusted annualized month-on-month inflation in every of the last three months was within the target range for annual inflation – 6-8%. Households' expectations of inflation have subsided as well, the NBK survey shows. Proportion of households expecting inflation to accelerate or to remain flat in the next 12 months has declined from 61.6% in January 2016 to 40.5% in April 2016.

The risks to inflation stemming on demand side are assessed as insignificant. Consumer demand remains depressed due to a decline in real wages and budget policy adjustments. The level of economic activity in the commodity sector remains low due to weak external demand

and uncertainties in the global financial and commodity markets. Supply of credit will remain constrained in the near-term.

The forecast of annual inflation for 2016 remains within the band of 6-8%.

The shift towards tenge in the currency preferences of depositors continues on the background of stabilization of exchange rate expectations and high yields. Purchases of US dollars bills by households have declined significantly. In February through March 2016, sales of foreign currency by households exceeded purchases, first time in 10 years. In March the volume of tenge deposits increased by 777.5 bln. tenge or 4.8% of total deposits.

A gradual rise of tenge-denominated high interest rate liabilities elevate the risks to financial stability by raising interest expenses. Banks that offer fixed-rate variable-size deposits with duration that far exceeds money market's run the risk of locking up into high funding costs over the medium term.

In 2016 decisions on the base rate will be announced at 5 p.m. on the following dates:

- June 6, 2016;
- July 11, 2016;
- August 15, 2016;
- October 3, 2016;
- November 14, 2016.

The dates are determined by the dates of publication of macroeconomic statistics as well as the time requirements for modeling and forecasting work within the NBK.

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