



**NATIONAL BANK OF KAZAKHSTAN**

**PRESS - RELEASE #14**

**On the base rate**

June 6, 2016

Almaty

The National Bank of Kazakhstan has decided to keep the base rate unchanged at 15% with an interest rate corridor of +/- 1%. The decision reflects the balance of risks to financial stability that stem from high costs of funding on the one hand and risks to price stability in the medium-term on the other hand.

In more detail, the decision reflected the following considerations.

Demand for Tenge continues to recover. Households persist in net selling of foreign currency bills. Net conversion of foreign currency deposits to tenge deposits continues. At end-April 2016 the share of foreign currency deposits declined to 72% for households deposits and to 53% for corporate clients. April 2016 also marked first increase in Tenge-denominated lending since October 2015.

Inflation remains within the expected trend. NBK's inflation expectation survey shows almost no change in May 2016. Only 37.7% of the respondents expect higher or the same level of inflation (in April 2016 at 37.1%).

Economic activity and domestic demand indicators continue to decline, exerting a negative impact on economic growth. Industrial production indicator for January-April 2016 declined. High investment demand and rising public sector spending partially offset the negative impact of the terms of trade shock.

After the NBK lowered the base rate and narrowed the interest rate corridor on May 6, 2016, monetary conditions eased somewhat. Money market rates remain at the floor of the interest rate corridor. A wider surplus of primary liquidity persists due to the continued conversion of foreign exchange deposits into tenge deposits as well as due to fiscal factors.

External and domestic risks remain. This may affect foreign currency market, money market and inflation expectations. After the base rate was lowered, the cost of hedging foreign currency risks has not risen and remains below the money market rates.

Should the risks recede and provided that emergent trends are confirmed, further cuts cannot be ruled out. The size of the cut will depend on the response of the economy to the external shocks and monetary policy shocks, including, but not limited to, lower medium-term inflation forecast, the cost of hedging foreign currency risks, and currency preferences of bank depositors.

The next decision on the base rate will be announced on July 11, 2016 at 17.00 Astana time.

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