



NATIONAL BANK OF KAZAKHSTAN

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On the base rate

July 11, 2016

Almaty

The National Bank of Kazakhstan has decided to lower the base rate to 13.0% with a band of +/- 1%. Inflation is fully corresponds to the forecasts of the National Bank, and the risks of acceleration of the inflation under current conditions are minimal, which with a high probability allows expecting inflation to achieve the upper limit of the 6-8% inflation target band by the end of 2016. Taking into account the time lag effect of the base rate on inflation, which is estimated to take up to one year, the decision to reduce the base rate confirms the confidence that inflation will remain within the target band over the horizon of twelve months and up until the end of 2017.

This decision on the base rate was taken in light of the following factors.

Positive trends of the last four months in the global market contribute to conversion from foreign currency denominated assets to assets in tenge both in the foreign exchange cash market and also in the bank deposit market.

In May – June 2016 prices in the world oil markets were formed at higher than expected levels. Results of the referendum on the exit of the United Kingdom from the European Union have led to an increase in short-term turbulence in the financial markets, but the direct risks of Brexit on Kazakhstan are estimated to be limited.

The situation in the domestic market is stable, the negative expectations regarding currency risks are reduced. According to the estimates of the National Bank, the exchange rate of tenge reflects a combination of fundamental external and internal factors that is evidenced by minor changes of the rate over the past months and the level of participation of the National Bank in the domestic foreign exchange market.

A structural liquidity surplus is observed in the money market, therefore the National Bank continues to actively conduct operations on absorbing excess liquidity. Low credit activity and demand for credit resources do not allow the liquidity to flow into the real economy, thus limiting the risk of accelerating inflation.

The value of actual inflation coincides with the estimates of the National Bank. During the first half of 2016 it equaled 4.6%, in June – 0.4%. According to NBK's inflation expectation survey and the monitoring of enterprises, a more moderate rate of growth of prices for consumer goods and final products of the real sector enterprises is expected. Inflation in countries - main trading partners is slowing down. Preservation of low level of economic activity in the country remains to be a limiting factor.

Further actions on the base rate will depend on the actual inflation, its deviation from the forecast, inflation expectations of population and market participants and currency preferences of economic agents. Possible reduction of the base rate would be determined by the presence of sustained signal indicating the convergence of inflation to the target range. Next decision on the base rate will be announced on August 15th, 2016 at 17:00 Astana time.

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