



NATIONAL BANK OF KAZAKHSTAN

PRESS - RELEASE #23

On the base rate

August 15, 2016

Almaty

The National Bank of Kazakhstan has decided to keep the base rate unchanged at 13% with a corridor of +/- 1 percentage points, reflecting the mandate to reach the target range for inflation of 6-8% and maintain it there until the end of 2017. The balance of risks to inflation has barely changed since previous decision on the base rate, but the impact of different multidirectional factors on inflation has increased. Subsequent decisions on the base rate will depend on, among other things, whether the actual and forecast inflation are relative to the target level.

The decision on the base rate was made with the account of the following factors.

Annual consumer inflation remains high, reflecting a significant increase in prices in the fourth quarter of 2015. Additional risks came from a seasonally-adjusted bump in July, caused mainly by a rise in prices for certain types of services and product groups. As the base effect begins to fade, a significant decline is expected in the annual inflation rate starting from October.

The index of business sentiment, based on the survey of top-management of real sector enterprises, moved into the positive, a sign of gradual recovery in economic activity and a risk to inflation.

Inflationary risks induced by oil prices, the main terms-of-trade determinant for Kazakhstan, have strengthened. The weakening in oil prices over the last two months, intensified in the third decade of July, was absorbed partly by the weakening of Tenge, in order to ease the associated external imbalances, but also contributing to a potential pass-through into domestic prices. However, the National Bank estimates that the pass-through of the July weakening will be limited in time and magnitude if oil prices recover to a level of USD 45 per barrel or higher.

The current level of the base rate, even after the cut in July, remains attractive and encourages holding assets in Tenge. The effect of the previous decision on the base rate, stimulating banks to lower market rates, will be pronounced in the increasing demand for resources and the

expansion of crediting activity closer to the fourth quarter of 2016 due to the slow adaptation of economic agents to the new conditions. This and weak consumer demand are expected to limit the risks to inflation.

The further reduction of the base rate will be based on the dynamics of actual inflation, its deviation from the forecast and target parameters, on inflation expectations, as well as the currency preferences of the population and market. The next decision on the base rate will be announced on October 3, 2016 at 17.00 Astana time.

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