



NATIONAL BANK OF KAZAKHSTAN

P R E S S – R E L E A S E № 36

On inflation forecast

November 15, 2016

Almaty

The National Bank of Kazakhstan has been conducting forecasting rounds 4 times a year in order to forecast key macroeconomic variables, mainly inflation rate, in the medium term (the next 7 quarters). Based on the estimates and projections, the National Bank of Kazakhstan takes decisions on monetary policy, including the level of the base rate.

On November 12, 2016 the National Bank of Kazakhstan has completed forecasting round "October-November 2016"¹. The forecast period includes period from Q4 2016 to Q2 2018.

The forecasting rounds consist of three phases, in which the short-term and medium-term projections are developed, as well as the reaction of monetary policy in the medium term.

In the baseline scenario (40 US dollars per barrel of Brent oil), inflation in Kazakhstan will remain within the target range of 6-8% in 2017 and will begin to smoothly enter into the corridor of 5-7% in 2018 (Figure 1). Inflation will slow down as a result of stable situation in world commodity markets, a neutral fiscal policy, weak domestic demand and saving behavior of economic agents, as well as due to the moderately restrictive monetary policy in 2016.

The external situation, in terms of inflation, will be favorable. Slowing inflation in the Russian Federation, which is the main trade partner of Kazakhstan, will contribute to deceleration of imported inflation. Moderate growth of the world economy against the background of a high crop yield will contribute to the lower growth rates of food prices. The stabilization of world oil prices will induce low devaluation expectations and gradual adaptation of economic agents to the new macroeconomic conditions.

The growth rate of Kazakhstan's economy is estimated at 0.2-0.5% in 2016 and 1.5-2% in 2017. The economic growth will be achieved by countercyclical economic policy aimed at mitigating the effects of deteriorating terms of trade. The economy will operate below its potential level until Q1 2018, reflecting deflationary pressures from domestic demand side. External demand is expected to be in the positive zone with respect to its potential by the mid of 2018, primarily due to the acceleration of economic activity in Europe, which will have a positive impact on the export of Kazakhstan. Structure of Kazakhstan's economy has not changed significantly, and the structure of investments in 2016 is mainly raw-material orientated that does not cause to anticipate an increase in long-term growth potential of Kazakhstan's economy, which is estimated at 3-4%.

As a result, the susceptibility of economy to exogenous shocks (*instability in the commodity market, shocks related to external demand for Kazakh products, the situation on world financial markets*) remains substantial. This will be followed by the application of the balanced approach with respect to the dynamics of the base rate.

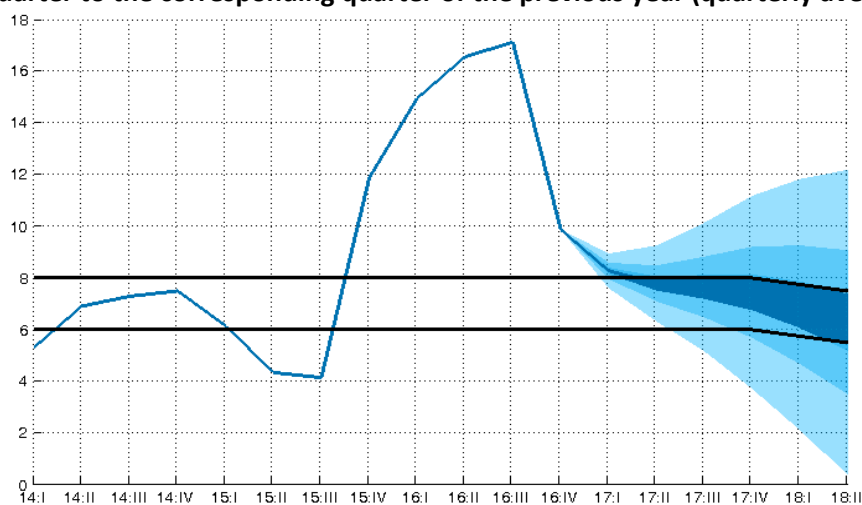
¹ The forecast of macroeconomic variables is based on statistical information as of October 27, 2016.

The main risk of accelerating inflation is a drop in oil prices below 30 US dollars per barrel and its presence at that level until Q2 2018. In case of this risk realization, annual inflation will exceed the target corridor in 2017 and the first half of 2018. Under these conditions, the National Bank of Kazakhstan will hold a restrictive monetary policy until Q2 2018. An additional risk may arise from the increase in non-oil state budget deficit, compared to planned figure in 2017-2018.

More detailed information on the results of the forecasting round "October-November 2016" will be published in the "Inflation Report" for Q3 2016 on the official website of the National Bank of Kazakhstan.

Figure 1

**Inflation fact and forecast (40 US dollars \$ per barrel of Brent oil),
%, quarter to the corresponding quarter of the previous year (quarterly average)**



Source: Committee on Statistics of the MNE

Calculations: National Bank of the Republic of Kazakhstan

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