



NATIONAL BANK OF KAZAKHSTAN

Press-Release № 7

On the base rate

February 20, 2017

Almaty

The National Bank of Kazakhstan has decided to reduce the base rate to 11% with a corridor of +/- 1%. In January 2017 the annual inflation rate has reached the target band of 6-8%. The decrease in inflationary expectations, the stability and the predictability of the situation on the domestic FX and money markets, the recovery of the business activity, and also the favorable external economic conditions caused the easing of the monetary conditions. The new level of the base rate reflects the long-run balance between the price stability and the financial stability; therefore, the potential of the further easing of the monetary policy is limited.

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

The annual inflation rate has slowed down in January 2017 to 7.9%, which completely matches the forecasts of the National Bank. The acceleration of the price growth in the specific commodity markets and in the paid services will not have a significant impact on the dynamics of the overall level of inflation and will be offset by the moderate price tendency in the markets of other consumer goods and services.

According to the survey taken in January on the inflationary expectations of the population, the observed tendency of improved expectations of respondents regarding the future level of inflation indicates the mitigation of their pro-inflation behavior. Quantitative assessment of the inflationary expectations shows that the expectations of the population are formed within the target band and fixed on the levels (6.6% in January) that are lower than the actual inflation. Furthermore, the share of the respondents, who expect the high level of inflation, has decreased to the lowest value since the middle of the last year.

So, in case of the absence of the adverse shocks, the inflation will persistently remain within the target band throughout the entire year of 2017, and also during the first half of 2018.

Devaluation expectations not only of the population, but also of the professional market participants, have been decreasing, which is reflected in the survey outcome and the hedging cost of exchange rate risks.

The deposit market data show the ongoing process of de-dollarization of the bank deposits and the continuing tendency of depositors' preferences towards national currency. According to the preliminary data, the share of the foreign currency deposits has decreased to 53% by the end of January 2017.

The signs of the economic recovery are getting more defined. Short-term economic indicator, which reflects the development of economy's main sectors, is in the recovery zone and has reached 103.8% in January 2017. In 2017 the real GDP growth is estimated to be above the level of 2%.

In spite of the positive signals of the business activity recovery and the stability of the domestic money and FX markets, the possibility of the external and internal shocks occurrence, which have the potential risks for the further economic development and, primarily, for the inflation processes, still exists. Among those the following risks should be noted: external risks associated with high dependence on the quotations in the world commodity and financial markets, the speed of the economic recovery of the countries – trade partners; and also the revision of budget expenditures upwards. Next decisions on the base rate will depend on the further dynamics of the fundamental factors of the domestic demand and the stability of the financial sector.

The next decision on the base rate will be announced on April 10, 2017 at 17:00 Astana time.

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