



NATIONAL BANK OF KAZAKHSTAN

Press-Release № 8

On inflation forecast

February 22, 2017

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 February 17, 2017 the National Bank of Kazakhstan has completed forecasting round "January-February 2017"¹. The forecast period includes period from Q1 2017 to Q3 2018.

In view of stabilization of the situation in the oil market, as well as more optimistic consensus forecasts of international institutions on the price of oil, optimistic scenario assuming the price of oil at 50 US dollars per barrel over the forecast period is considered as a base scenario².

The results indicate that the annual inflation rate in Kazakhstan will remain within the target range of 6-8% during 2017 (6.5-7.0% by the end of 2017), and will begin to smoothly enter the target range of 5-7% in 2018 (Figure 1). Slowdown of inflation will occur on account of a decrease in inflation expectations, an enhancement of stability and predictability of the situation on domestic money market, as well as an adoption of moderately restrictive monetary policy in 2017.

Economic growth will accelerate to 2.2% in 2017 and to 4.7% for the nine months of 2018. Economic growth in this period will be provided due to the growth in domestic consumption amid rising real wages, the growth of investment in fixed assets in the framework of the implementation of government programs to support and diversify the economy, the growth of production of mineral resources (Kashagan effect). Growth in imports of consumer and investment goods as a result of the expansion of domestic demand will be the limiting factor in GDP growth. The output gap will be negative until Q3 2017. From Q4 2017 real GDP will be slightly above its potential, which will indicate weak proinflationary pressure in the economy.

External inflationary environment is characterized as moderately favorable. This is, primarily, due to the slowdown of inflationary processes in the Russian Federation. External demand will recover due to the weak growth of the EU economy, low positive rates of GDP growth in Russia, decelerating, but still high rates of economic growth in China

The main inflation risks are high producers' price inflation, a significant increase in real wages in key sectors of the economy in Q4 2016. In turn, under the implementation of the 40 dollars per barrel

¹ The forecast of macroeconomic variables is based on statistical information as of February 2, 2017.

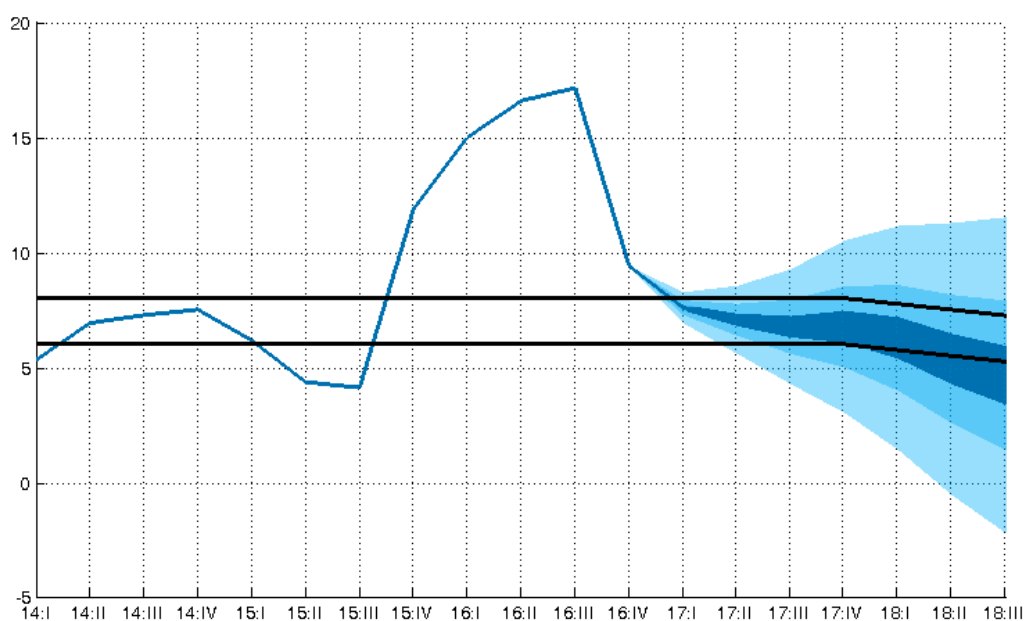
² According to the survey and forecasts of major investment banks and international institutions (Thompson Reuters, Bloomberg, World Bank, IMF), the average price of Brent oil will account for 54.5 US dollars per barrel in 2017.

scenario annual inflation will be closer to the upper limit of the target range in 2017 (7.5-8.0% by the end of 2017).

Detailed information on the results of the forecasting round "January-February 2017" will be published in the "Inflation Report" for Q4 2016 on the official website of the National Bank of Kazakhstan.

Figure 1

**Inflation fact and forecast (50 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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