



NATIONAL BANK OF KAZAKHSTAN

## Press-Release № 16

### The base rate reduced to 10.5%

June 5, 2017

Almaty

*The National Bank of Republic of Kazakhstan has decided to reduce the base rate to 10.5% with a corridor of +/-1%. The annual inflation sustainably remains within the target range, the inflation expectations of households stay moderate, and the signs of recovery of the economic activity are being observed. Considering the arising monetary conditions and in the absence of the shocks, the inflation will remain within the target range in 2017 and 2018.*

*The risks of the inflationary pressure in case of very fast recovery of economy and aggregate demand are not considered as significant. In case of the realization of the basic scenario of economic development (the oil price – 50 US dollars per barrel), and also in the absence of the negative shocks and should the actual inflation is in the line with the forecasted parameters, the possibility of the further cut of the base rate within the 12-month horizon is not ruled out. The NBK will maintain the real base rate on the level which is associated with the long-run potential rate of the economic growth.*

*However, the assessment of the less favorable to the economy of Kazakhstan scenario suggests more conservative approach with respect to the base rate.*

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

The **annual inflation rate** on the level of 7.5% in May 2017, was within the target range and completely corresponds to the estimates of the National Bank.

The shock of supply for certain types of food products which was observed over the past few months, in particular for vegetables and meat, is partially offset by the decline in the FAO index for the third consecutive month, without causing significant changes in food inflation. The expected seasonal growth in the domestic supply of food products, according to estimates, will contribute to a further slowdown in annual inflation till the end of the third quarter of 2017. Herewith, due to the low base of the 4th quarter of 2016, a slight short-term increase in annual inflation may be possible by the end of this year. The National Bank does not consider necessary to tighten monetary conditions in response to

a deliberately limited increase in inflation associated with an increase in costs on the supply side and not directly dependent on lending conditions from the demand side.

Households' expectations on future level of inflation remain practically unchanged, individual fluctuations are not significant and do not affect the overall trend. The quantitative assessment of the expected inflation for the year ahead (6.1%) was fixed below the level of the actual inflation, which indicates its gradual convergence to the target range set for 2018.

Due to the stable expectations of the population and professional participants of the FX market on preservation the tenge exchange rate at the current level, currency preferences of depositors continue to change. In May, according to preliminary data, the excess of the share of tenge deposits over the foreign currency deposits that was achieved in March 2017 is preserved.

Business activity in the economy demonstrates significant revival, without exerting pro-inflationary pressure. Short-term economic indicator for the basic sectors of the economy is in the growth zone. It has reached the maximum value for the last 3 years - 107.1% in April 2017. The results of the households' survey on the economic prospects confirm the observed trend and indicate the presence of positive expectations of economic agents. A gradual recovery of growth in the consumer demand is observed. In January-March, real incomes of the population grew by 2.4%, which is mainly explained by an increase in budget expenditures for social payments.

External conditions supported the growth of the Kazakhstan's economy. In May world oil prices were in the range of 48-54 US dollars per barrel showing a slight increase for most of the month.

Monetary conditions after the base rate cut are eased from moderately tight to neutral. In addition to the undervalued (weak) real exchange rate of the tenge, which supports price competitiveness of Kazakhstan's producers, the real interest rate is decreasing (i.e., the nominal rate adjusted for the targeted inflation rate - 6-8% for 2017 and 5-7% for 2018), which will encourage the demand for credit resources of banks. However, despite the excess liquidity, the limited bank capital is a more significant factor that restraining the supply of credit, than the cost of funding.

The next decision on the base rate will be announced on July 5, 2017 at 17:00 Astana time.

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