



NATIONAL BANK OF KAZAKHSTAN

Press-Release № 17

On inflation forecast

June 7, 2017

Almaty

The National Bank of Kazakhstan has been conducting forecast rounds 4 times a year in order to produce forecasts of 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 June 3, 2017 the National Bank of Kazakhstan completed forecast round "April-May 2017"¹. The forecast period covers period from Q2 2017 to Q4 2018.

The price of oil at 50 US dollars per barrel is considered as a baseline scenario throughout the forecast period². Estimates of the external inflation background and external demand have not undergone significant changes and generally correspond to the trajectories of the previous forecast round.

Inflation, as the main target of monetary policy, will continue its downward trend in annual terms. This will be facilitated by stabilization of inflation expectations, preservation of predictability of the situation in the domestic money and foreign exchange markets. The shock of supply for certain types of food, particularly vegetables and meat, observed over the past few months is partially offset by a decline of the world food price index the third consecutive month, without causing significant changes in food inflation. According to the estimates, expected seasonal growth in the domestic supply of food products during the summer months will contribute to a further slowdown in annual inflation up to the end of Q3 2017. In a similar vein, a slight increase in annual inflation by the end of this year may ensue due to the low base of Q4 2016, but the effect will be short-lived and the annual inflation will continue to decline in

¹ The forecast of macroeconomic variables is based on statistical information as of May 18, 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 56.4 and 60.2 US dollars per barrel in 2017 and 2018, accordingly.

2018, according to the NBK's estimates. Based on the forecasts, the annual inflation in Kazakhstan will remain within the target corridor of 6-8% during 2017, and will start to smoothly enter a target corridor of 5-7% in 2018 (graph 1).

The main risks of inflation are associated with supply shocks in the food market, increase in producer prices in manufacturing industry, depreciation of the tenge against the currencies of major trading partners. In the case of realization of the 40 US dollars per barrel scenario, the risk of annual inflation exceeding the target corridor in 2017 rises.

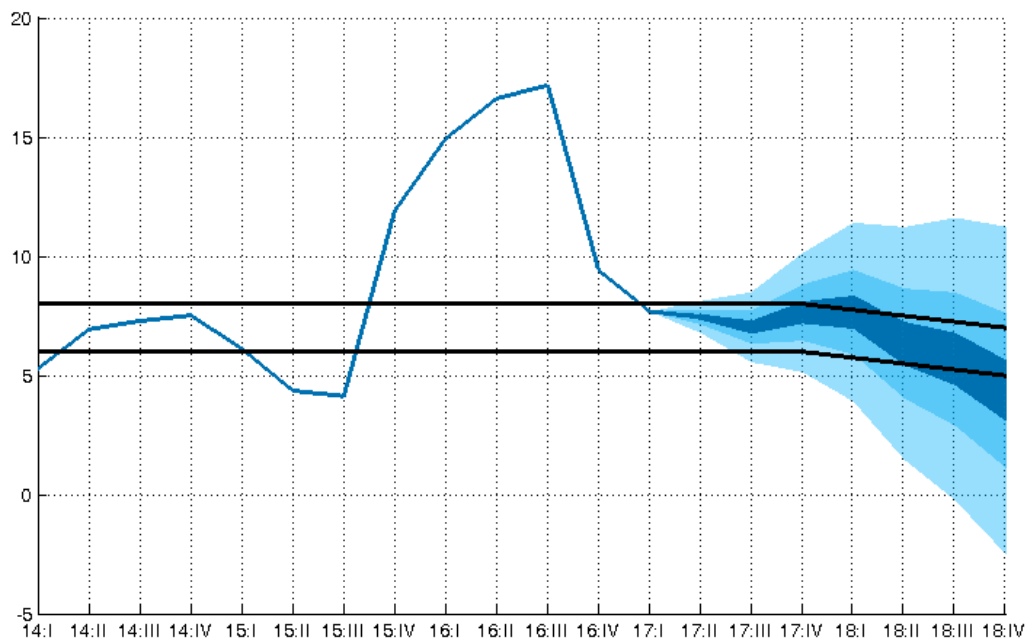
The economic growth will accelerate to 2.8% in 2017 (2.2% of the previous forecast round) and to 3.6% in 2018. The revision of growth rates is connected with unexpectedly high rates of economic recovery in Kazakhstan in Q1 2017. In the previous forecast round, the more smooth dynamics of domestic demand growth in 2017 and its acceleration in 2018 were expected. However, at the beginning of 2017 economic activity is recovering more rapidly: production growth was observed in all main sectors of the economy, investment in fixed capital continued to grow, real income of the population showed growth for the first time since November 2015. In turn, the recovery in domestic economic activity led to an increase in imports. Thus, the higher base of 2017 affected the revision of GDP growth rates in 2018.

At the same time, the assumptions for economic growth in the forecast period have not changed, according to which the growth in domestic consumption is expected amid rising real wages, growth in investment in fixed assets, and production of mineral resources. The growth in imports of consumer and investment goods as a result of expanding domestic demand will act as a limiting factor of GDP growth. In 2018, the real GDP will be slightly higher than its potential, thereby increasing inflationary pressure in the economy.

Detailed information on the results of the forecast round "April-May 2017" will be published in the "Inflation Report" for Q1 2017 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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