



NATIONAL BANK OF KAZAKHSTAN

Press-release № 24

On inflation forecast

August 22, 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 August 18, 2017 the National Bank of Kazakhstan completed forecast round "July-August 2017"¹. The forecast period covers period from Q3 2017 to Q1 2019.

The price of oil at 50 US dollars per barrel is considered as a baseline scenario throughout the forecast period².

According to forecasts, annual inflation in Kazakhstan will remain close to the upper bound of the target corridor of 6-8% during the second half of 2017, and will start to enter smoothly the target corridor of 5-7% in 2018 (Figure 1). The main factors that are expected to determine the dynamics of inflation in Kazakhstan up to the end of this year comprise shocks in the supply of meat products and fruits and vegetables that have been observed this year, a weakening of the exchange rate of tenge against the US dollar, an increase in the world grain prices in July-August 2017, revision of the inflation estimate in Russia over the forecast period, as well as high producer prices in manufacturing in Kazakhstan and the gradual recovery of household consumption. At the same time, the effects of these shocks in Q1-Q2 2018 are expected to exhaust. Stable oil prices, a decrease in inflation expectations and weak inflationary pressure on domestic demand side will lead inflation to enter the target corridor of 5-7% in 2018 and 4-6% in early 2019.

¹ The forecast of macroeconomic variables is based on statistical information as of August 3, 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 55.3 and 58.2 US dollars per barrel in 2017 and 2018, accordingly.

According to recent estimates, the economic growth will accelerate to 3.1% in 2017 (2.8% of the previous forecast round) and to 3.0% in 2018 (3.6% of the previous forecast round). The revision of growth rates is associated with the acceleration of recovery of economic activity in the real sector in 1H 2017. There has been an increase in the extraction of mineral resources, in particular crude oil and natural gas. This, in turn, led to a revision of the assumptions regarding the volume of production from 81 million tons to 84.5 million tons in 2017. In addition, positive dynamics was recorded in other sectors of the economy. This year the short-term economic indicator, based on changes in the indices of output in the basic sectors, has reached its maximum level over the last six years (5.5% in January-July compared to the corresponding period of the previous year). The growth rate of investments in fixed assets amounted to 3.2% during the first half of 2017 (compared to the first half of 2016). A further growth of investments is expected on the background of expansion of production activity and improvement in financial indicators of enterprises. Acceleration of the growth rate of retail trade turnover to 6.4% in January-July 2017, along with the increase in retail lending by 54.7%, contributed to the continued recovery of consumer demand. However, this dynamics of demand is limited by the reduction of real wages and incomes of the population. Recovery in business activity and domestic demand led to the increase in the imports of consumer, intermediate and investment goods, which accounted for 16.8% in 1H 2017 according to preliminary data release. Consequently, the higher base of 2017 resulted in the revision of GDP growth rates in 2018.

The assumptions for economic growth in the forecast period have not changed. The growth of domestic consumption, the growth of investments in fixed assets with an increase in the volume of production of mineral resources (Kashagan effect) are expected. The growth of imports of consumer and investment goods as a result of expanding domestic demand will restrain GDP growth. The output gap indicates that disinflationary pressure in the economy is exhausting, weak inflationary pressure will be observed in 2018.

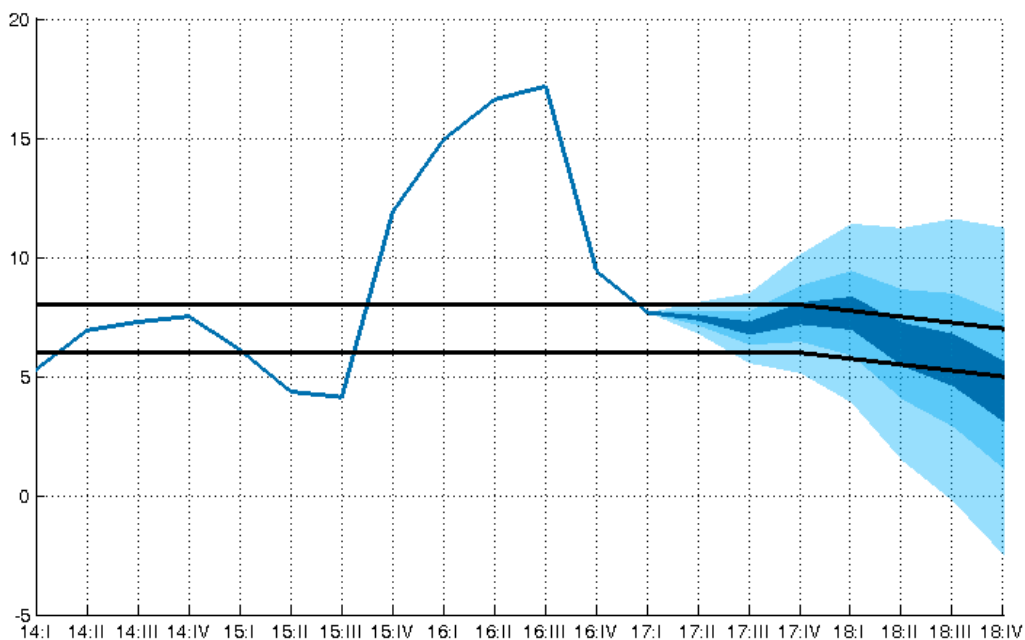
The dynamics of external demand corresponds to the assumptions of the previous forecast round, expecting the restoration of the European Union's economy, the sluggish growth of GDP of Russia, the decelerating but still high rates of economic growth in China.

In turn, with the implementation of the scenario of 40 US dollars per barrel, annual inflation will be slightly higher than the upper boundary of the target corridor in 2017 and near the upper boundary of the target corridor in 2018.

Detailed information on the results of the forecast round "July-August 2017" will be published in the "Inflation Report" for Q2 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

For more detailed information please contact:
+7 (727) 2704 585
e-mail: press@nationalbank.kz
www.nationalbank.kz