



NATIONAL BANK OF KAZAKHSTAN

Press-release №1

The base rate reduced to 9.75%

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Almaty

The National Bank of Kazakhstan has decided to reduce the base rate to the level of 9.75% with a corridor of +/-1%. The decision on the reduction was based on the lower level of the actual inflation rate by the end of 2017 in contrast to the forecasted trajectory, the estimates of the further deceleration of the inflationary processes, the continuing weak recovery of the domestic demand, and also the favorable trends in the external markets.

The trend of the further easing of the monetary policy conditions will depend on the situation in the world markets and in the countries - main trade partners, stabilization of the positive trends in the domestic economy, which will determine the accordance of the forecasted inflation with that of the actual.

The annual inflation in December 2017 has amounted to 7.1%, which is significantly lower than the expected level of 7.5-7.7%. The deceleration of the inflation rate was caused by the stabilization of the price dynamics in the markets of some goods and services, specifically in the non-food product markets. In December 2017 the petrol price has decreased after the growth in the autumn months. In relation to the low consumer demand, the slower growth of the durable goods prices is being observed. The price growth of the food products and services reflects the historical dynamics and in general matches the forecasts. The low volatility of the tenge exchange rate has also made a positive contribution to the deceleration of the annual inflation.

It is expected that in the medium-term (until the end of the current year and in the next year) disinflationary tendencies will persist. However in the short-run period (in the first quarter of 2018) the tariffs for paid services of the monopoly enterprises will become an existing risk for the annual inflation rate to sustain on the same level or even to increase to some extent. Though, their influence on the inflation is estimated as limited and does not require the corrective measures to tighten the

monetary policy conditions since the risks of inflation may be released on the supply side, which does not depend on the NBK's policy.

The households' perception of the prices is getting better. In 2017 according to the surveys of the households, the share of responders, which believed that the prices have been increasing more rapid than earlier in the last 12 months, has decreased from 59.8% in December 2016 to 52.1% in December 2017. The quantitative assessment of the inflationary expectations of the households for a year ahead has decreased from 7.6% in December 2016 to 7.1% in December 2017.

Regarding the demand, the growth deceleration of the costs on the final consumption is being observed. It is stipulated by the decrease of the households' income in the real terms, which also limits the consumer price growth.

The external conditions are favorable. Since the end of **October** the oil prices get steadily formed on the level above 60 US dollars per barrel. Continuation of the OPEC+ agreement about the oil production cuts while keeping the current quota in November 2017 reduces the risks of the significant oil price drop. Also, the world food prices index in December has declined in comparison to the previous month by 3.3%, and the expectations of the world output growth in some agriculture markets in 2018 ensures maintaining the current level of prices. The improvement of the economic situation and the moderate rate of inflation in the countries – main trade partners, which all together with the other factors will make a disinflationary impact on the consumer prices in Kazakhstan.

In spite of the base rate reduction, **the monetary policy conditions** remain neutral in a context of the expected deceleration of the inflation rate. The current level of the base rate in the real terms ensures maintaining the target level of the inflation in 2018 (5-7%) and corresponds to the long-term potential level of the economic growth.

The next decision on the base rate will be announced on March 5, 2018 at 17:00 Astana time.

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