



NATIONAL BANK OF KAZAKHSTAN

Press-release № 4

The base rate reduced to 9.5%

March 5, 2018

Almaty

The National Bank has decided to reduce the base rate to the level of 9.5% with a corridor of +/- 1%. The annual inflation continues to decelerate within the target range for 2018. Inflationary expectations demonstrate the decreasing tendency. In the short-term period there are risks that the inflation might undershoot the lower boundary of the target range of 5-7%, however in the medium-term it will remain within the new target range 4-6% for 2019. Considering the favorable tendencies and the positive estimates regarding the development perspectives of the situation in the foreign markets and in the countries-main trade partners, and also the expectations regarding the continuing economic growth of Kazakhstan in 2018-2019, in 2018 the National Bank of Kazakhstan will continue the policy of the gradual reduction of the base rate, yet ensuring maintenance of the monetary conditions.

Since the beginning of 2018 the annual inflation has been decelerating faster than it was expected by the National Bank and in February amounted to 6.5%. This dynamics was caused by the weakening of the external inflationary pressures and the growth of the aggregate supply in the domestic market. Low level of the inflation in the countries-main trade partners fosters the decrease of the imported goods prices. Additionally, due to the continuing negative dynamics of the households' real money income, recovery of the domestic consumption is happening at a slower rate, which exerts the disinflationary pressure on the consumer prices.

The increase of the inflation's separate components reflects the short-term correction as the result of the last year shocks in the energy market. In January **the core inflation** excluding the volatile components (fruit and vegetable products, energy, regulated services) has continued the decelerating dynamics and has decreased to 6.1%.

The nature of the current year inflationary risks has switched from upward (the risk of overshooting the target range upper boundary) to downward. According to the estimates of the NBK, in the fourth quarter of 2018 the inflation rate may amount to the level lower than 5% (under the lower

boundary) as a result of the weak domestic consumer demand and in absence of the shocks in the some goods markets. However, the expected recovery of the households' income due to the low inflation rate will ensure maintaining the new target range 4-6% for 2019.

As a result of the observed disinflationary processes in the economy, the inflationary expectations keep the decreasing trend. In January 2018, according to the results of the population survey, the estimate of the expected inflation for the year ahead has decreased to 6.6% from its peak of 7.7% in November 2017. The share of the responders, who believe that in the past year the price of goods has increased with the faster rate than before from 52.1% to 47%, which verifies the continuing improvement of the perception of inflation by the households.

In the current year **the economic activity** continues to demonstrate the strong growth. By the end of January the short-term economic indicator amounted to 104.7%. The economic growth was stipulated by the active production and the world price growth of the energy, recovery of the foreign demand and expansion of the mineral resources production.

Due to the decelerating inflation and the gradual path of economy to the sustainable growth, the monetary policy conditions continue tending to the neutrality. In spite of the existing risks of the faster deceleration of the inflation in 2018, the policy regarding the further reduction of base rate ensures the correspondence of the future level of the inflation to the short-term target range and the achievement of the target of 4% by 2020, since the risks have the limited and short-term nature.

The next decision on the base rate will be announced on April 16, 2018 at 17:00 Astana time.

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