



Press-Release №28

On inflation forecast

September 4, 2018

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 (7 quarters ahead). Based on the estimates and projections, the National Bank of Kazakhstan takes decisions on monetary policy, including the level of the base rate.

On September 1, 2018 the National Bank of Kazakhstan completed forecast round "August-September 2018"¹. The forecast period covers period from Q3 2018 to Q1 2020.

The National Bank of Kazakhstan has considered the price of Brent oil being 60 US dollars per barrel as a baseline scenario for the whole forecast period².

According to forecasts, annual inflation in Kazakhstan in 2018 will be within the target corridor of 5-7%. In 2019, annual inflation will start to enter smoothly a new target corridor of 4-6%, being near its upper boundary (graph 1). In comparison with the previous forecast round "May-June 2018", the inflation trajectory was adjusted towards a slight increase, which raises the risks of exceeding the target of 2020 (below 4%). This was due to the observed weakening of the national currency amid the depreciation of the Russian ruble and other currencies of developing countries; the worsening of the external inflation conditions associated with the possible amplification of inflation in Russia and its exceeding of the target level; toughening of external monetary conditions; the expected increase in world prices for cereals due to reduced stocks and increased global consumption. Also, inflation trends will depend on the positive dynamics of domestic consumer demand on the background of the growth of real incomes of the population, as well as maintaining the price index in the manufacturing industry at a high level (in annual terms).

The economic growth in 2018-2019, according to estimates, will be 3.5% and 2.6%, respectively (3.5% and 2.7% in the previous forecast round, respectively). The prerequisites for GDP growth in 2018 did not change significantly. The positive dynamics of economic activity in 2018 will be supported by an increase in domestic consumer demand, accompanied by an increase in consumer lending. It is assumed that the real incomes of the population will continue to grow at a positive rate. There will be a positive dynamics of investment activity as a result of projects in the mining sector and increase of investments in housing construction. The increase in oil production and export at the Kashagan field will contribute to the overall growth of exports of goods and services. In 2019, economic growth will slow down, which will be due

¹ The forecast of macroeconomic variables is based on statistical information as of August 16, 2018.

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 crude oil will account for 70.1 US dollars per barrel in 2018 and 69.5 US dollars per barrel in 2019 (66.2 and 64.9 US dollars per barrel during the previous forecast round, respectively).

to a weak dynamics of domestic demand amid the weakening of the exchange rate, as well as limited potential for consumer lending.

According to the updated estimates of the National Bank of Kazakhstan, the output gap in Kazakhstan in the short term will be positive, having a weak pro-inflationary influence. In the medium term, it is assumed that the output gap will shift to a slightly negative zone.

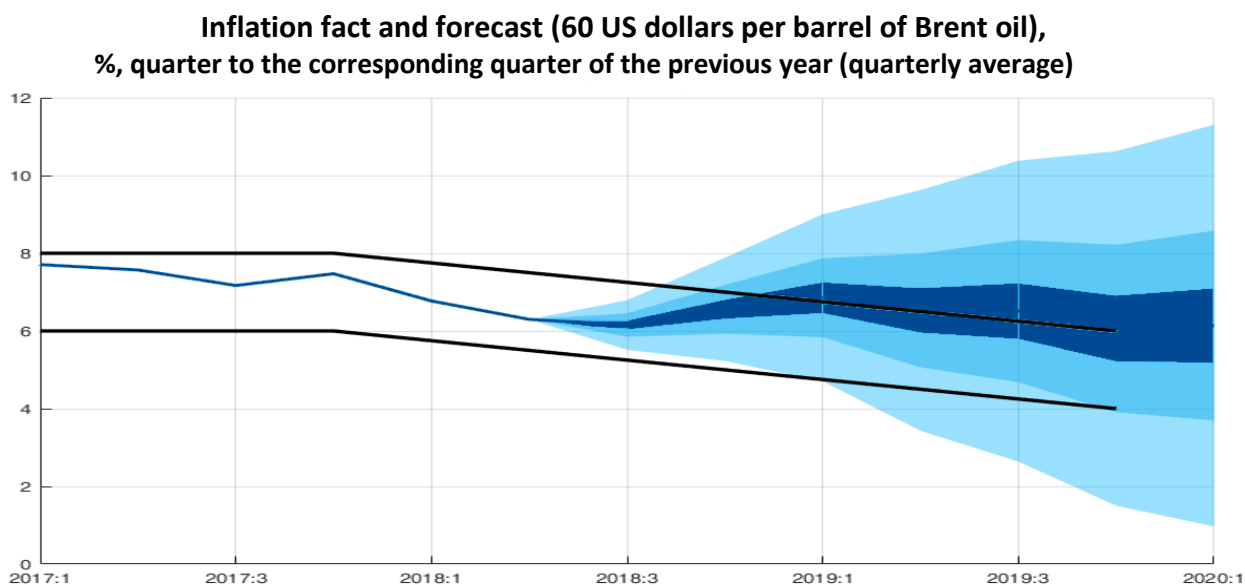
The economy of Kazakhstan remains exposed to external shocks, oil prices are still an important factor that determines the dynamics of economic activity.

Under the implementation of 40 US dollars per barrel scenario, there is a high risk that annual inflation will exceed the target corridor in 2018-2019, which will require appropriate measures from the monetary policy side.

The risk profile deteriorated due to increased pro-inflationary risks associated with geopolitical tensions, capital outflows from developing countries and accelerated external inflation. In addition, supply shocks and non-anchored inflationary expectations continue to be important risks for inflation forecast.

More detailed information on the results of the forecasting round "August-September 2018" will be published in the "Inflation Report" for Q2 2018 on the official website of the National Bank of Kazakhstan.

Figure 1



Source: Committee on Statistics of the MNE of Kazakhstan
Calculations: the National Bank of Kazakhstan

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