



NATIONAL BANK OF KAZAKHSTAN

PRESS - RELEASE № 27

The base rate unchanged at 9%

September 3, 2018

Almaty

The National Bank of Kazakhstan has decided to keep the base rate unchanged at 9% with a corridor of +/-1%. Current and expected by the end of 2018 annual inflation rate remains within the target range (5-7%). However, the increased impact of the inflation factors, both from the recovering domestic demand and the world economy, reduces the potential for inflation slowdown in the medium-term. Respectively, the risks of inflation staying near the upper range of the target corridor in 2019 (4-6%) are rising, exceeding the target for 2020 (below 4%).

The National Bank closely monitors the dynamics of indicators that may affect inflation in the next 1-2 years, but currently does not consider it necessary to take corrective actions. In the case of strengthening of the actual and projected inflationary pressures, the National Bank does not exclude the possibility of monetary policy tightening.

In August the **annual inflation** increased to 6.0% midpoint of the target range of 5-7% by the end of 2018. Despite a slowdown in annual growth of prices for food products (5.1%) and paid services (4.9%), the dynamics of the non-food component (8.2%) prevents further reduction of the overall inflation rate. The nature of the inflationary background is largely determined by supply-side factors that formally are not dependent on the National Bank's monetary policy. Consumer Price Index is mostly influenced by rising producer prices, especially in the manufacturing, unexpected supply shocks, and increase in the aggregate (consumer and investment) demand.

Consumer demand is stimulated by the renewed since the beginning of this year growth of real income of the population against the background of increased social expenditures from the state budget and wages in the economy, as well as consumer lending to households by banks. In the medium term, the effect of this factor on inflation will be gradually diminished due to expectations of a reduction in the fiscal stimulus of the economy.

In the first 7 months of 2018 **investment in fixed assets** increased by 23.7%, and was backed by the implementation of projects in the oil and gas industry, manufacturing and construction.

The economic activity continues to demonstrate the positive dynamics. In January-July of 2018 the short-term economic indicator amounted to 104.9%. A positive contribution to growth was made by all major industries – mining (5.4%) and manufacturing (4.9%), transportation (4.9%), communications (5.2%) and trade (6.1%). Expectations for further economic growth have remained at a high level, with a possible slowdown in 2019 due to the high base of the current and past years.

The balance of risks **in the external sector** continues to shift to a negative direction.

Crude oil prices remain at a relatively higher level, close to 70 US dollars per barrel, but are not able to compensate the negative consequences from the arisen uncertainty in the relationship between the world's largest economies.

In July **FAO index** fell by 3.7% in the annual terms. Nevertheless, growth in food consumption in the world will remain stable in the long-term, and amid falling global food reserves will further increase the index in the medium - long run.

Inflation rate of the main trading partners is below the target. However, on the horizon of up to one year, the expected acceleration of external inflationary processes is the main risk that contributes to the move of inflation in Kazakhstan beyond the upper limit of the target corridor.

The US policy to promote economic growth, as well as the policy of the Federal Reserve to raise key interest rates, led to **capital outflow and weakening of emerging market currencies**, including Kazakhstan's main trading partners. Further tightening of external monetary conditions will continue to have an inflationary pressure on emerging markets.

Inflationary expectations in Kazakhstan demonstrate a long-term trend towards a decline. According to the recent results (July), the quantitative assessment of the inflationary expectations was formed at the level of 5.6%. The perceivable inflation continues to improve. The share of the responders, who believes that in the past 12 months the price of goods and services has increased with the faster rate than before”, has decreased from 52.1% at the beginning of the year to 43.5% in July.

Despite the positive trend, unforeseen shocks can have a significant impact on the dynamics of inflationary expectations, which make them unstable in the short term.

Monetary conditions in Kazakhstan are close to neutral levels. The current nature of monetary policy contributes to the preservation of macroeconomic stability in the country and the growth of the economy at the level of potential values. However, on the background of tenge weakening, which was observed in recent months, as well as in the case of confirmation of estimates of slower deceleration of the actual inflation compared to the previously forecasted level, it is possible that the monetary conditions might get tightened before the end of this year in order to minimize the risks associated with growing negative expectations.

The next decision on the base rate will be announced on October 15, 2018 at 17:00 Astana time.

For more detailed information please contact:

+7 (727) 2704 585

e-mail: press@nationalbank.kz

www.nationalbank.kz