



**PRESS - RELEASE № 34**

**The base rate raised to 9.25%**

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Almaty

*The National Bank of Kazakhstan has decided to raise the base rate by 0.25 percentage points to 9.25% while preserving the existing corridor of +/-1%. The decision was stipulated by the increased proinflationary risks, including those arising from the exchange rate volatility, mentioned in the previous decisions on the base rate. The National Bank maintains its estimates for the dynamics of projected inflation near the upper boundary of the target corridor for 2019, i.e. closer to 6%, and draws attention to the growing uncertainty in inflation expectations caused by external factors. Further decisions on the base rate will be determined by the correspondence of the projected inflation to its target corridor.*

*In order to improve the operational efficiency of monetary operations, the necessity to narrow the corridor of the interest rate will be considered.*

At present **inflationary background** is characterized as moderate. In September the annual inflation was formed at the level of 6.1%. Rise of prices in the markets of sugar, cereal, bakery products, eggs, poultry led to an increase in food inflation from 5.1% in August to 5.7% in September, despite the seasonal decline in prices for fruits and vegetables on the background of the high supply. The non-food inflation was influenced by the increase in the prices for solid fuel in view of lower prices for fuel and lubricants, as well as moderate price dynamics for other non-food items and paid services to the population.

Industrial production prices for finished consumer goods rose at a moderate pace (3.6% in annual terms). However, increase in prices which continue to be high in the manufacturing industry (10.3%) will create pressure on consumer prices on the horizon of up to 6-12 months.

According to the National Bank's estimates, inflation in the current year will be within the target corridor of 5-7%, and in 2019 it will smoothly enter the new corridor of 4-6%, being closer to its upper boundary of the target corridor.

In August and September, there was an increase in **inflation expectations** of households (from 5.6% in July to 5.9% and 6.4%, respectively) on the background of increased fluctuations of the exchange rate, which confirms their unsteady nature in the short-term. The perceivable inflation also increased – the share of the responders, who believe that “in the past 12 months the price of goods and services has increased with the faster rate than before”, amounted to 42.5% in September, compared to 41.3% in August.

**Domestic demand** continues to expand due to the growth of real income of households (for 8 months – rise by 3.5%) and the rise in the volume of consumer loans (in August – 12% in annual terms). In the medium term, the growth of household income will be supported by the upcoming increase in the minimum wage level, putting inflationary pressure on the economy.

**The output gap** remains positive, reflecting that the actual growth of the economy is higher than its potential level. In January-September 2018 the short-term economic indicator amounted to 104.8%. The mining industry (4.9%) and manufacturing (5.1%), transport (4.6%) and trade (6.7%) made a positive contribution to the growth.

The situation in **the external sector** is accompanied by tightening of monetary conditions by leading central banks, as well as the central banks of some developing countries in response to capital outflow and the weakening of their national currencies.

The risk of inflationary pressure **from the external sector** persists as well as in the period of the previous decision on the base rate. The actual inflation in the countries – major trading partners in the current year and expectations for its further acceleration to levels above target indicators in the current year and the next year remain as the key risk factors.

The new level of the base rate will allow to increase the demand for tenge assets and to maintain **monetary conditions** at a level close to neutral. The necessity to tighten monetary conditions will be determined by the correspondence of the projected inflation to its target corridor.

In order to improve the effectiveness of monetary policy, the National Bank sees the need for further improvement of the short-term predictability of the targeted TONIA rate within the target corridor, including bringing the targeted rate closer to the base rate.

The next decision on the base rate will be announced on December 3, 2018 at 17:00 Astana time.

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