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The base rate remains unchanged at 9.25%

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Almaty

The National Bank of Kazakhstan has decided to keep the base rate at 9.25% with the corridor of +/-1%. During October and November of this year, the inflation demonstrated a significant decline in relation to the preliminary estimates and was formed closer to the lower boundary of the target corridor of 5-7 %.

Taking into consideration current balance of risks related to the internal and external factors, the National Bank confirms its estimates of dynamics of projected inflation for 2019 to be within the new corridor of 4-6% closer to its upper boundary; and its subsequent gradual decline in the first half of 2020 (the horizon of the forecast period).

Further decisions on the base rate will be taken based on the necessity to react on the potential inflationary risks, as well as on the objective of achieving a medium-term inflation target of below 4% by the end of 2020.

Annual inflation in October and November was formed at the level of 5.3%, which is significantly lower than September value (6.1%). The slowdown in price increase was mostly associated with a positive shock in several markets for consumer goods and services. In October there was a seasonal decline in prices for fruits and vegetables and gasoline, as well as the decline in tariffs on regulated services, compared to the September of this year.

Overall inflationary background of the economy remains relatively high, which can be observed in an increase of the annual core inflation in October up to 6.3% in comparison to 6.2% in September.

On the forecast horizon (the middle of 2020) the National Bank estimates inflation to maintain predominantly within 5.0-5.5% boundaries.

Inflation expectations are estimated to be higher than the level of actual inflation. Nevertheless, based on the outcomes of November surveys the expectations are anticipated to fall below this October's 6.3%. The perceivable inflation continues to follow the long-term trend of deceleration. According to the results of the October surveys, the percentage of responders, who believed that "in the past 12 months the price of goods and services has increased with the faster rate than before" went down to 40.5% (52.1% at the beginning of the year and 42.5% in September).

The main risk of inflationary pressure **from the external sector** originates from the uncertainty related to the future oil prices, in November oil prices fell from \$75 per barrel down to \$60 per barrel. Another source of risk is a continuing tendency of growing inflation in the countries - main trading partners.

Expanding **domestic demand** remains as an additional pro-inflationary factor due to this year's persisting growth of money income in real terms (by 3.4% from the beginning of the year), and the planned increase of the minimum wage in the year 2019.

Domestic demand is reinforced by the accelerated growth of consumer loans, which amounted to 12.9% in annual terms. In a 10-month period, the volume of issued consumer

loans increased by 25.4% or 581 billion tenge in comparison to the corresponding period of the previous year.

Business activity continues to expand. Short-term economic indicator for January-October 2018 grew by 4.8%. An increase in the volume of production in mining and manufacturing industries reached 4.7% and 5.4%, accordingly, trade - 7.2%, transport and communication - 4.5% and 3.4%, and agriculture - 2.5%.

The National Bank maintains **monetary conditions** at a neutral level. The current level of the base rate, keeping other things constant, ensures the formation of inflation within the corridor of 4-6% by the end of the year 2019. In addition, the current interest rate policy of the National Bank allows offsetting the pressure from the external factors on the domestic foreign exchange market. As a result, an efficient formation of the tenge exchange rate and its reduced influence on domestic prices is sustained.

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 the means of bringing the money market rates closer to the base rate.

The next decision on the base rate will be announced on January 14, 2019, at 17:00 Astana time.

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