



## Press-Release № 45

### On inflation forecast

December 7, 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 November 30, 2018 the National Bank of Kazakhstan completed forecast round "November-December 2018"<sup>1</sup>. The forecast period covers period from Q4 2018 to Q2 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 period<sup>2</sup>.

The current risk profile of forecasts has slightly deteriorated against the backdrop of increasing inflation risks associated with the acceleration of domestic consumer and investment demand, as well as the volatility of oil prices. In addition, the acceleration of external inflation and a positive fiscal impulse continue to be significant risks for the projected inflation trajectory.

According to forecasts, y-o-y inflation in Kazakhstan in 2019 will begin smoothly enter into the new target corridor of 4-6%, being near its upper boundary (*graph 1*). Compared with the previous forecast round "August-September 2018", the inflation trajectory was adjusted to a slight decrease, which is associated with the expected decline in monopolists' tariffs in 2019. In the first half of 2020, according to the estimates of the National Bank of Kazakhstan, y-o-y inflation will continue to gradually slow down. Among the main factors, that will determine the dynamics of inflation, are the future reinforcement of real cash income as a result of an increase in minimum wages, a reduction in the tax burden for low-wage categories of workers, and continued growth in consumer lending; the deterioration of external inflationary background associated with the raise of inflation forecasts in Russia; possible depreciation of the Russian ruble with a deterioration of the situation with sanctions against Russia; decline in energy prices against the background of excess supply over demand in the forecast period.

The economic growth is estimated at 2.7% in 2019 (2.6% in the previous forecast round), in the first half of 2020 – 2.7%. Conditions for economic growth assessments have not changed. The main driver of economic growth will be the growth of domestic consumer demand. The positive dynamics of investment activity, primarily in the mining industry and housing construction, will continue. The increase in exports of goods and services will be associated with further growth in oil and gas condensate production at the Kashagan oilfield.

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<sup>1</sup> The forecast of macroeconomic variables is based on statistical data as of November 15, 2018.

<sup>2</sup> 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 75.8 US dollars per barrel in 2019 (69.5 US dollars per barrel during the previous forecast round).

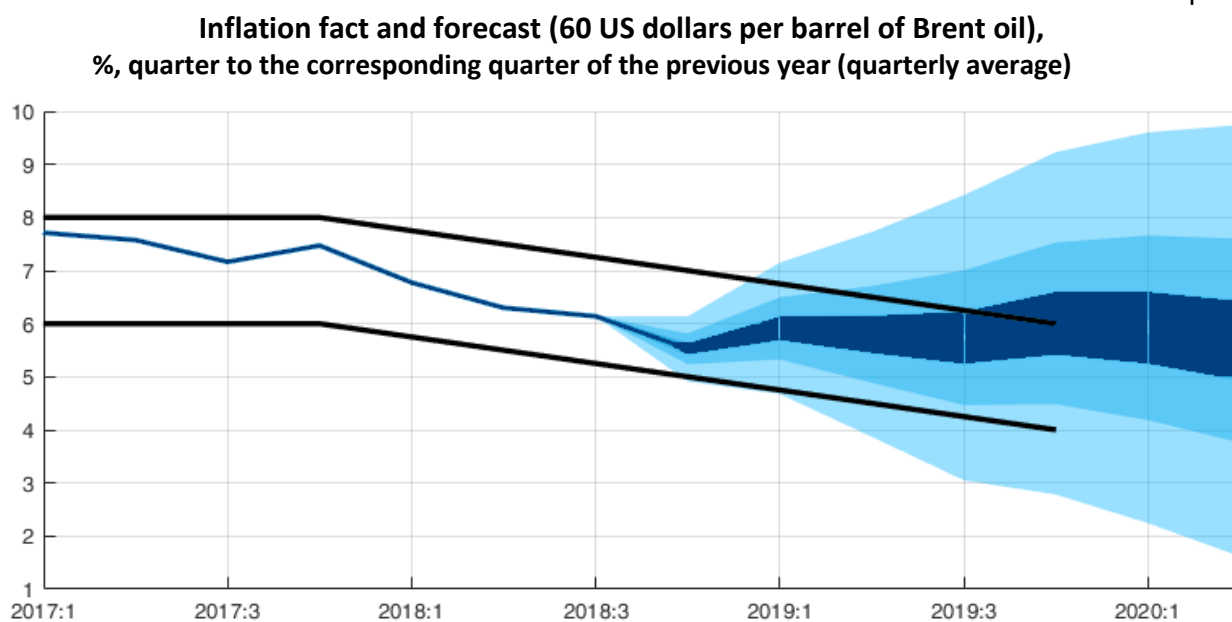
According to updated estimates of the National Bank of Kazakhstan, the output gap in Kazakhstan in the short and medium term will be positive, having a pro-inflationary effect. By the end of the forecast period, the positive gap will gradually shrink, while remaining in the weakly positive zone.

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 y-o-y inflation will exceed the target corridor in 2019-2020, which will require appropriate measures from the monetary policy side.

More detailed information on the results of the forecasting round "November-December 2018" will be published in the "Inflation Report" for Q3 2018 on the official internet-resource of the National Bank of Kazakhstan.

Graph 1



Source: Committee on Statistics of the MNE of Kazakhstan

Calculations: the National Bank of Kazakhstan

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