



NATIONAL BANK OF KAZAKHSTAN

PRESS RELEASE № 1

The base rate remains unchanged at 9.25%

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Almaty

The National Bank of Kazakhstan has made a decision to keep the base rate at 9.25% with the corridor of +/-1%.

The annual inflation continues forming at the levels corresponding to the target range. In December 2018, the inflation was at the level close to the lower boundary of the target range of 5-7%. In the condition of gradual recovery of economic activity, preventing inflation from exceeding the boundaries of the target corridor remains a high priority objective for the National Bank of Kazakhstan. In the absence of significant shocks, current level of the base rate will facilitate formation of inflation within a new target range of 4-6% by the end of 2019.

Further decisions on the base rate will be taken based on dynamics of actual inflation, its forecast values, and the degree of realization of risky scenarios. In case of maintaining of existing volatility in the key commodity markets that depresses the stability in the domestic financial market, a decision about tightening monetary policy might be taken on the next revision of the base rate.

Annual inflation by the end of 2018 was formed at the level of 5.3%. A moderate increase of prices for all main categories of consumer goods and services was recorded. The largest price increase was fixed on non-food products (6.4% in annual terms). Prices of food products (increase of 5.1%) and paid services (increase of 4.5%) were formed at the level lower than the overall inflation.

At the same time, the core inflation in December was higher than the overall inflation and amounted to 6.7% (6.2% in December 2017), which indicates that the inflation background remains, associated both with the volatility of oil prices and the acceleration of domestic demand, which this year is being reinforced by fiscal incentives.

Nevertheless, at the end of 2019, the National Bank estimates inflation to maintain within the upper region of a new, lower target range of 4-6%, i.e. 5-6%.

Inflation expectations were reduced significantly. In November and December of 2018 values of expected inflation 12 months ahead resulted in 5.3% and 5.0% accordingly (after 6.4% and 6.3% in September and October). Anchoring inflationary expectations around current level and improving their resistance in the short term remains an important objective of the National Bank of Kazakhstan.

There is a volatility of oil prices observed **in the external sector**. After a decline in October-December last year down to the minimum values of the previous 1.5 years (US \$50.47 per barrel), they went back to the level of US \$60 per barrel in January 2019. Nevertheless, considerable uncertainty remains with regards to future outlook, which creates a potential ground for realization of the risky scenarios, both in the short and medium term.

In addition, strengthening of the external inflationary background is observed. An actual annual inflation in Russian Federation, the main trading partner, is forming above the target rate, while estimations about further acceleration this year create a potential foundation for inflationary pressure on domestic prices in Kazakhstan, taking into account high proportion of Russian imports.

In the domestic sector, the situation is expressed by the expanding domestic demand against the background of growing real income of population of 4.4% as of January-November period, in comparison to the corresponding period of the previous year. A growth of consumer lending was slowing down modestly and reached 11% in annual terms in November 2018.

Current development of macroeconomic indicators allows sustaining **monetary conditions** close to a neutral level. A neutral policy aims at maintaining a balance between achieving inflation targets and assisting in sustaining economic growth close to its potential levels.

Further decisions on the base rate will depend on the forecast dynamics of the domestic macroeconomic indicators and situation in the external markets. A necessity to achieve a target inflation of 4% by the end of 2020 becomes one of the key parameters. In case of maintaining volatility in the global oil market on the domestic financial market, a decision on the tightening monetary policy might be taken on the next revision of the base rate.

The next decision on the base rate will be announced on March 4, 2019, at 17:00 Astana time.

For more information please call
+7 (727) 2704 585
+7 (727) 3302 497
e-mail: press@nationalbank.kz
Visit our website www.nationalbank.kz