



NATIONAL BANK OF KAZAKHSTAN

PRESS RELEASE

The base rate remains unchanged at 16,75%

February 24, 2023

Astana

*The Monetary Policy Committee of the National Bank of the Republic of Kazakhstan has made a decision to keep the base rate at **16,75%** per annum with the interest rate corridor +/- 1 pp. The decision was based on updated forecasts of the National Bank, data analysis, as well as an assessment of the inflation risks balance. External pro-inflationary factors remain amid the uncertainty of the geopolitical situation and its consequences, as well as high world food prices.*

Internal inflation risks are associated with stable domestic demand, restructuring of logistics and production chains, stimulating fiscal policy, as well as still high inflation expectations. The aggregate balance of factors justifies the need to maintain the base rate at the current level during the first half of 2023 in order to reduce inflation in the medium term.

In January 2023, **annual inflation** continued to grow, amounting to **20,7%**. The main driver remains the rise in food prices. At the same time, **monthly inflation** continued to slow down for the **fourth month in a row** to **1,1%** (from 1,8% in September 2022), but still **exceeds** the historical average. Similarly to monthly inflation, core inflation indicators are also slowing down, but are formed at high levels.

Inflation expectations declined after reaching a peak in December 2022, in line with the assumptions of the previous forecast. **Nevertheless, inflation expectations are still high and a clear downward trend has not formed yet**, which creates an obstacle to a rapid slowdown in inflation.

Global inflation has started to slow down, driven by lower energy prices and some improvement in the supply chain situation. At the same time, the risks of accelerating inflation in the world due to tense labor market, strong consumer demand and China opening after the pandemic remain elevated. According to forecasts, global inflation will gradually slow down during the forecast period, which will be accompanied by a tight monetary policy of central banks, as well as weaker global economic growth. Amid the projected inflation decline in the trading partner countries, the pressure on consumer prices in Kazakhstan will weaken.

Taking into account the new data, as well as external and internal factors, **the inflation forecast was revised down slightly**. At the same time, in 2023, the forecast range has been expanded due to uncertainty about fiscal stimulus in Kazakhstan and inflation dynamics in Russia. In the baseline scenario this year, annual inflation is projected to be in the range of **9-12%**, in 2024 – **6-8%**, in 2025 – **4-6%**. Due to the base effect, the peak of annual inflation is expected in the first quarter of 2023. The improvement in inflation forecasts is due to the projected decline in the FAO index for grains, a good harvest in Kazakhstan, the strengthening of the real exchange rate of tenge, as well as the moderate impact of the migration shock on services.

Forecasts for the Kazakhstan economy growth have been improved. Thus, in 2023-2025, GDP growth is expected at the level of **3,5-4,5%**. The forecast has been revised due to more positive expectations for oil production and exports, with a gradual recovery in the economies of trading partner countries. Domestic demand is expected to grow sustainably amid stimulating government spending and favorable oil prices. Meanwhile, the positive imports dynamics due to fiscal stimulus, as

well as the restraining real rate, will partially offset the domestic demand growth. The risk of the GDP forecast is the possible problems of access of Kazakhstan's exports to international markets.

Pro-inflationary factors within the country may increase. There are still risks of accelerating the prices growth for food products due to the supply shock in the market of vegetable products. The overdue reforms of tariffs for regulated utilities and fuel prices can cause the effect of accelerating the growth of prices for a wide range of goods and services. Additional pro-inflation risks from the outside world are associated with a potential acceleration of monthly inflation rates in the Russian Federation amid the rising state budget expenditures, ruble depreciation and sanctions. These factors **are not taken into account in the prerequisites of the basic scenario.** In the future, their implementation may entail changes in forecasts.

Under these conditions, maintaining the base rate in the first half of 2023 at current values will help stabilize inflation and gradually reduce it in the medium term.

The key parameters of the forecast are given in the appendix to the press release. More complete information about the factors of the decision and forecast will be presented in the Monetary Policy Report on the official Internet resource of the National Bank on March 6, 2023.

The next scheduled decision of the Monetary Policy Committee of the National Bank of Kazakhstan on the base rate will be announced on April 7, 2023 at 12:00 Astana time.

More detailed information for the mass media representatives is available upon request:

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**Key forecast parameters
of the National Bank of the Republic of Kazakhstan according to the baseline scenario**

| | 2023 | 2024 | 2025 |
|---|----------------|----------------|----------------|
| Forecast conditions | | | |
| The price of Brent crude oil, US dollars per barrel on average per year | 88 | 85 | 77 |
| Forecast | | | |
| GDP %, y/y | 3,5-4,5 | 3,5-4,5 | 3,5-4,5 |
| CPI %, Dec.to.Dec. of the previous year | 9-12 | 6-8 | 4-6 |
| Current account, billion US dollars | 0,1 | 2,2 | -0,5 |