



NATIONAL BANK OF KAZAKHSTAN

PRESS RELEASE

The base rate reduced to 16.5%

August 25, 2023

Astana

*The Monetary Policy Committee of the National Bank of the Republic of Kazakhstan has made a decision to reduce the base rate to the level of **16.5%** per annum with the interest rate corridor of ± 1 percentage point. The decision was made based on the updated forecasts of the National Bank, data analysis, and assessment of the inflation risk balance.*

The pro-inflationary pressure from the external environment continues to gradually weaken. Inflation in most countries is slowing down as a result of central banks' policies aimed at ensuring price stability, but it remains stable, leading to a shifting of the timeline for rate reductions in developed countries. Prices in the global food markets, as well as logistical costs, are decreasing.

Meanwhile, pro-inflationary pressure remains within the economy stemming from expanding fiscal stimulus, sustained domestic demand, high and unstable inflation expectations, as well as rising production costs. The indirect impact of the increase in the cost of fuel and lubricants is appearing at moderate rates, partially offset by the dynamics of the tenge exchange rate.

As a result, the aggregate risk balance, due to some easing of external pressures, remains within a weakly disinflationary zone. With further deceleration of actual inflation and its stable components, a policy of gradual and cautious reduction of the base rate will continue. However, the room for reduction is constrained by the risks of potential fiscal stimulus acceleration in the second half of the year.

The deceleration of inflationary processes continues. The annual inflation in July 2023 reached **14%**. Within the price growth structure, the pace of increase in goods prices is slowing at a faster rate. The indirect effect of the increase in fuel and lubricants prices was not fully reflected in the current inflation and was partially offset by the dynamics of the tenge exchange rate. Inflation for services accelerated somewhat in July. The increase in housing and communal services in July occurred in certain regions. Additionally, there is an observed rise in the cost of non-regulated services, reflecting sustained demand.

The monthly inflation in July 2023 slightly accelerated to **0.6%**, trending above historical averages. The indicators for core and seasonally-adjusted inflation have not decelerated and remain stable. This signifies a sustained nature of price growth, supported by domestic demand. An additional factor is the persistence of high production costs, which is impacting the cost of goods and services.

Inflation expectations, despite a slight decrease, remain elevated and sensitive to changes in certain commodity markets. In July 2023, the year-ahead expected inflation reached **16.9%** (17.2% in June). Perceived inflation also remains high at **18.6%** (18.8% in June). The share of respondents pointing out the increase in prices for fuel and lubricants, and housing and communal services as the main factors driving price growth has risen.

The influence of external factors on inflation is gradually weakening, albeit with a less positive outlook compared to the previous forecasting round. Price growth in most countries is decelerating due to the policies implemented by regulators. However, the stability of core inflation and the high likelihood of not achieving targets in the medium-term perspective have prompted many central banks to shift the timing of their rate cut cycles. Previously, it was expected that the last rate hike by the Federal Reserve would occur in May 2023, and the first rate cut would take place in November 2023. At present, another rate hike occurred in July, and the rate reduction has been postponed to May 2024. The trend of decreasing global food prices continues despite a slight increase in July 2023.

The price dynamics in trading partner countries have somewhat deteriorated. In the EU, inflation is decreasing at a slower pace, with the persistent component of inflation remaining elevated. In Russia, due to strong consumer demand, a weakened ruble exchange rate, and increased inflation expectations, consumer inflation has started to accelerate. In China, deflation is observed as a consequence of weak current indicators of economic activity.

The oil market situation will evolve moderately against the backdrop of China's economic slowdown and the restraining policies of central banks. Taking this into account, the baseline scenario for 2023-2024 remains unchanged at **\$80 USD per barrel**.

Considering the aforementioned factors, the inflation forecast has undergone several changes. Short-term uncertainty regarding price growth has diminished. In the baseline scenario, inflation for the current year is projected in the range of **10-12%**, **7.5-9.5%** in 2024, and **5.5-7.5%** in 2025. Excluding the direct effect of the increase in housing and communal services, to which the National Bank does not respond with changes in the base rate, achieving the medium-term target of **5%** is expected by the end of 2025. This will be facilitated by further easing of external pressures and monetary conditions, which are currently within the constraining zone. **Key risks to the inflation forecast** include intensified fiscal stimulus, failure to anchor inflation expectations, acceleration of inflation in Russia, and the potential rise in global food prices due to the non-renewal of the Grain Agreement. Another risk to the forecast is the continuation of reforms in the pricing of fuel and lubricants in the domestic market.

The medium-term economic growth forecasts for Kazakhstan have improved. The expansion of business activity will be driven by sustained domestic demand, increased budget expenditures, and the recovery of the oil sector. In the current year, GDP growth is expected to remain in the range of **4.2-5.2%**, consistent with previous projections. For the years 2024-2025, the GDP growth forecast for Kazakhstan has been elevated to **4-5%**. **Risks to the GDP forecast** are linked to potential challenges in accessing international markets for Kazakh exports, as well as the likelihood of not achieving planned oil production levels.

With a further rhythmic deceleration of actual inflation and its stable components, the smooth reduction of the base rate will persist. However, the room for reduction, shaped by the positive dynamics of external factors, is constrained by the risks of potential fiscal stimulus intensification. This requires a cautious approach in making near-term decisions. Pauses in the reduction of the base rate for the accumulation of actual data and risk monitoring are not excluded.

The key forecast parameters are provided in the appendix to the press release. More comprehensive information about the factors underlying the decision and the forecast will be presented in the Monetary Policy Report on the official website of the National Bank¹ on September 4, 2023.

The next scheduled decision of the Monetary Policy Committee of the National Bank of Kazakhstan on the base rate will be announced on October 6, 2023, at 12:00 Astana time.

¹ <https://www.nationalbank.kz/en/page/obzor-inflyacii-dkp>

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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	80 (82)	80 (80)	77 (77)
Forecast			
GDP %, y/y	4.2-5.2 (4.2-5.2)	4-5 (3.5-4.5)	4-5 (3.5-4.5)
CPI %, Dec.to Dec. of the previous year	10-12 (11-14)	7.5-9.5 (9-11)	5.5-7.5 (5.5-7.5)
Current account, in % of GDP	-3.4 (-2.4)	-2.8 (-2.1)	-1.9 (-1.3)