



NATIONAL BANK OF KAZAKHSTAN

PRESS-RELEASE

The base rate reduced to 16%

October 6, 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%** per annum with the interest rate corridor of ± 1 percentage point.*

The annual inflation is gradually slowing down. External inflationary pressures are gradually decreasing against the backdrop of central banks' restraining policies and reduced global food prices. However, there are individual factors and risks that require attention. Internal inflation factors include fiscal stimulus, stable domestic demand, and high inflation expectations. Risks of secondary round effects from the increase in regulated prices have increased, which were previously offset by the dynamics of the tenge exchange rate.

Given the current decision and risk balance, the possibility of further lowering the base rate in 2023 is significantly constrained. Monetary policy easing until the end of the year will be considered if there is a slowdown in annual inflation to a one-digit level.

In September 2023, the annual inflation decreased to 11.8%, moving towards the lower bound of the projected range for 2023, which is 10-12%. This decline in inflation is occurring under moderately tight monetary policy and continued fiscal stimulus against the backdrop of the gradual waning of the high base effect from the previous year. The September figure came in below the forecast due to a more moderate-than-expected increase in utility tariffs. Monthly inflation stood at **0.6%**, which is still significantly higher than historical averages. Core inflation, which reflects the sustainable inflationary processes, is stabilizing.

Inflation expectations have accelerated somewhat despite the slowdown in inflation. The expected inflation for September, one year ahead, was 17% (compared to 16.4% in August). However, the perceived price growth in September decreased to 17.8% (down from 18.4% in August). Overall, the dynamics of expected and perceived inflation reflect the implementation of reforms in the housing and communal services market and rising of gasoline prices.

External inflation is developing favorably, continuing to slow down, but certain inflationary factors and risks have increased. Prices on the global food markets are decreasing due to the lower cost of dairy products, vegetable oils, meat, and grains. However, the stability of inflationary processes has delayed interest rate cuts in developed countries and led to a strengthening of central banks' tightening policies. In its latest decision in September 2023, the ECB raised interest rates again in an effort to reduce persistently high inflation. The U.S. Federal Reserve is considering another interest rate hike, partly due to concerns about accelerating inflation driven by rising oil prices, prompted by the extension of voluntary supply constraints by OPEC+ countries. In Russia, tightening of monetary policy continued in September 2023 due to accelerating inflation.

Economic growth is in line with the forecasts of the National Bank. From January to August 2023, Kazakhstan's GDP grew by **4.9%** year-on-year. Business activity is expanding due to stable

domestic demand, implementation of infrastructure projects, and recovery in the oil sector. The key contributors to economic growth continue to be the construction, trade, industrial, information, and communication sectors.

Pro-inflationary risks are associated with the strengthening of fiscal stimulus in the current year and the lack of anchoring of inflation expectations. Another significant factor is the potential realization of delayed secondary effects from the increase in fuel and lubricants, and housing and communal services prices, which were previously offset by the dynamics of the tenge exchange rate, as well as worsening forecasts for wheat crop yields in the current year.

From the external sector, the main source of risks for future price growth is the uncertainty in the geopolitical situation. These risks include the acceleration of inflation in Russia and the potential increase in global food prices due to the non-renewal of the 'Grain Deal'.

The observed steady slowdown in inflation has allowed for the utilization of available room for reducing the base rate. However, due to the presence of several inflationary risks both in the external sector and within the economy, the possibilities for further rate cuts in 2023 are significantly constrained. Monetary policy easing until the end of the year will be considered if there is a slowdown in annual inflation to a one-digit level.

The moderately tight nature of monetary conditions will contribute to further lowering inflation closer to the lower bound of the projected range of 10-12% by the end of 2023, as well as stabilizing it at the target level of 5% in the medium term. The National Bank will monitor the trajectory of annual inflation converging towards the target to respond promptly to possible deviations.

The next scheduled decision of the Monetary Policy Committee of the National Bank of Kazakhstan on the base rate will be announced on November 24, 2023, at 12:00 Astana time.

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