



NATIONAL BANK OF KAZAKHSTAN

PRESS-RELEASE

The base rate reduced to 15.25%

January 19, 2024

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 **15.25%** per annum with the interest rate corridor of +/- 1 percentage point.*

By the end of 2023, the annual inflation rate reached a single digit level. In December, the monthly inflation slightly exceeded historical averages. External inflationary processes continue to unfold favorably amidst declining global food prices and the restrained policies of central banks. Domestically, inflationary pressures persist due to sustained internal demand supported by fiscal stimulus, as well as elevated and unstable inflation expectations.

Further decisions regarding the base rate will depend on the alignment of the actual inflation dynamics with its forecast trajectory. Achieving the 5% inflation target requires maintaining moderately tight monetary conditions. The National Bank will monitor incoming economic data, and in the absence of shocks, the gradual reduction of the base rate will continue, with the possibility of intermittent pauses. Nevertheless, the decline cycle can be long.

In December 2023, the annual inflation rate decreased to 9.8%, aligning with the National Bank's forecast. The slowdown in price growth is attributed to the implemented monetary policy, a decline in global food prices and production, anti-inflationary measures undertaken by authorities, as well as the influence of the high base effect from the previous year.

The monthly inflation amounted to **0.8%** in December, slightly exceeding its historical average (0.7%). The core inflation, indicative of the stable component of consumer prices, accelerated slightly in December. Overall, indicators for core and seasonally adjusted inflation have remained stable over the past few months. At the same time, they still exceed the established target. To confidently reduce overall inflation to 5% in the years 2025-2026, further deceleration of its stable component is necessary.

Inflation expectations among the population have slightly decreased. However, they remain unstable and are affected by rising prices for food, and gasoline.

The external inflationary background is developing favorably. This is facilitated by lower prices on world food markets. In December, the FAO Food Price Index continued its descent. Although the cost of grains increased in December amid logistical challenges in the Black Sea region. External monetary conditions persist in their restrictive stance. After the September hike, the ECB maintained its key interest rate at the end of last year. The U.S. Federal Reserve also kept its rate unchanged, indicating a potential adjustment to monetary conditions if risks to achieving the inflation target arise. In turn, the Bank of Russia continued to raise the key rate to curb inflation towards the target.

The economic growth for the year 2023 is estimated at 5.1% (based on the short-term economic indicator), aligning with the National Bank's forecast. Strong economic growth in 2023 is

attributed to positive dynamics in key sectors of the economy, including construction, trade, telecommunications, transportation, mining, and manufacturing. However, a significant reduction in agricultural output is noted due to poor grain harvests.

Pro-inflationary risks are associated with non-anchoring of inflation expectations, potential strengthening of fiscal stimulus, and high growth in consumer lending. Potential risks stem from uncertainty regarding the dynamics of food prices due to a poor harvest and incomplete reforms in regulated price sectors. Risks in the external sector persist, linked to high inflation in one of the major trading partners - Russia.

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The next scheduled decision of the Monetary Policy Committee of the National Bank of Kazakhstan on the base rate will be announced on February 23, 2024, at 12:00 Astana time.

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