



NATIONAL BANK OF KAZAKHSTAN

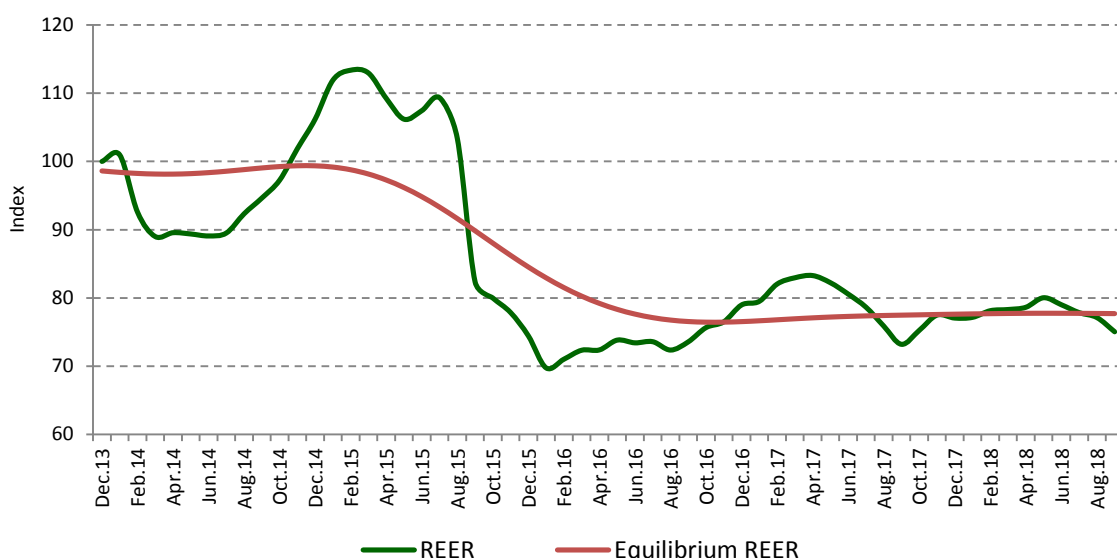
PUBLIC INFORMATION NOTICE

November 1, 2018

Consistently high oil prices and compliance of the REER with its equilibrium values helped to reduce the current account deficit by 4 times

According to the results of September 2018, the tenge real effective exchange rate (*hereinafter referred to as REER*) weakened by 2,6% compared to December 2017. The REER is located near its equilibrium values, which allows to maintain internal and external balances in the economy.

Figure 1. Indices of real and equilibrium exchange rates*

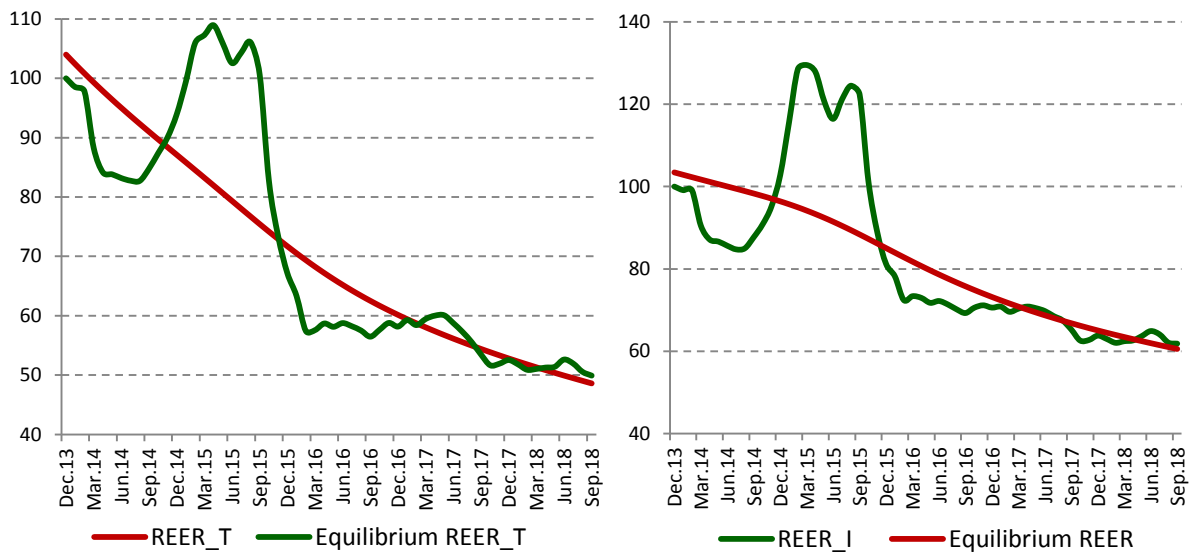


*Note: 1) the equilibrium was calculated by Hodrick-Prescott filter with the assumption of a slightly weakened real effective exchange rates until the end of 2018. 2) Increase means strengthening, decrease - weakening of the REER index.

Indices of bilateral real exchange rates of tenge to currencies of countries of major trading partners showed multidirectional dynamics. So, in September 2018 in relation to December 2017, there was a real appreciation of the tenge against the ruble by 5,7%, and a weakening against the US dollar by 8,3%, against the euro by 6,1%, against the yuan by 4,1 %

REER to the currencies of the main trading partners weighted by the goods turnover of Kazakhstan (*euro – 55,7%, ruble – 24,8%, yuan – 19,5%*) (*REER_T*) during 2018 was near its equilibrium values. REER weighted by import (*REER_I*) (*euro - 29%, ruble – 49,8%, yuan – 21,2%*) shows a similar trend (*figure 2*).

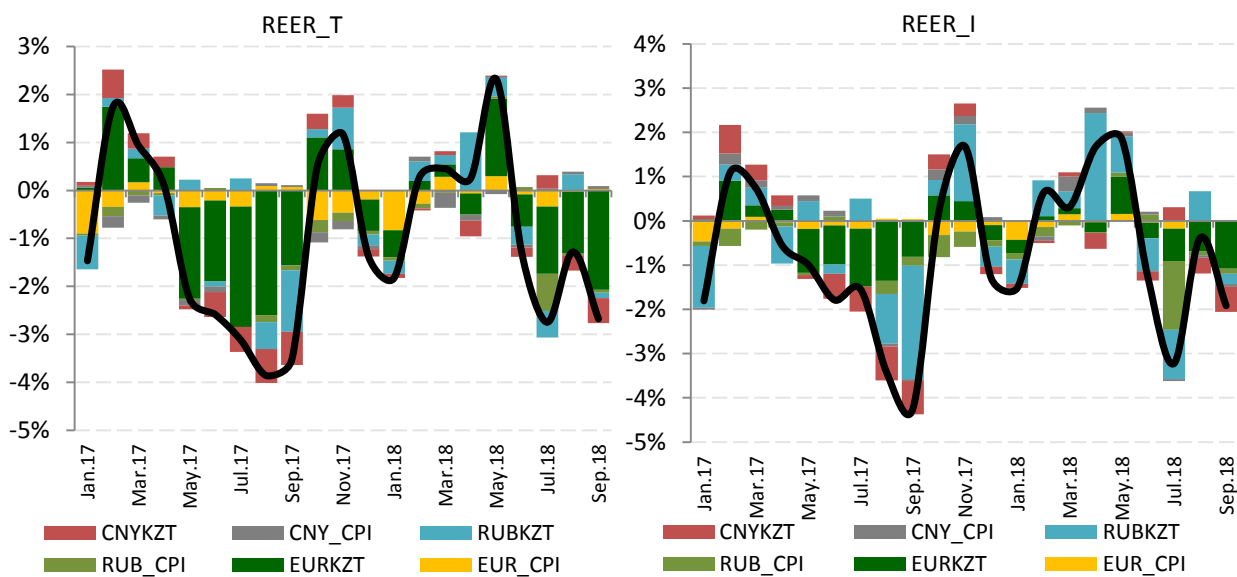
Figure 2. Indices of real and equilibrium exchange rates to the currencies of countries of trading partners, weighted by import and turnover



**Note: 1) the equilibrium was calculated by Hodrick-Prescott filter with the assumption of a slightly weakened real effective exchange rates until the end of 2018. 2) Increase means strengthening, decrease - weakening of the REER index.*

The main changes in REER_T and REER_I in July 2018 were influenced by nominal rates and inflation in the Russian Federation. In July, indices weakened due to the depreciation of the tenge exchange rate, while inflation in the Russian Federation was higher than in Kazakhstan. The tightening of external monetary conditions in September of the current year and, as a consequence, the outflow of capital from emerging markets, led to a real depreciation of the tenge rate (Figure 3).

Figure 3. Decomposition of the REER index* (euro, ruble, yuan), change to previous month



**Note: Increase means strengthening, decreasing - weakening of the index of REER tenge.*

The consistently high oil prices, the decrease in the volatility of the REER and its location near the long-term trend contributed to reducing the current account deficit in the first half of 2018 by 4 times compared to the first half of 2017, reaching (-) \$0,7 bln or (-) 1% to GDP. Threefold growth rate of exports (25%) compared the growth of imports (8,7%) led to an increase in the positive trade balance to \$13 bln, which is 1,5 times more compared to the same period of the first half of 2017 (\$8,5 bln).

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