



NATIONAL BANK OF KAZAKHSTAN

## Press Release №7

### The base rate remains unchanged at 9.00%

April 26, 2021

Nur-Sultan

The Monetary Policy Committee of the National Bank of Kazakhstan has made a decision to set the base rate at **9.00%** per annum with the interest rate corridor of  $\pm 1.0$  percentage points. Consequently, the rate for the liquidity provision standing facilities is to be set on 10.00% and for the liquidity withdrawal standing facilities at 8.00%.

The decision was stipulated by the persisting effects of the pro-inflationary factors, despite a slight slowdown of actual inflation. Risks of increasing prices are associated with rising electricity tariffs, growing gasoline prices, clarifying the parameters of the state budget, continuing growth in external prices for food products, accelerating inflation in trading partner countries and the increased likelihood of a worsening situation with COVID-19 in the world due to emerging problems with vaccination. The domestic sector demonstrates signs of recovery in business activity, indicating a gradual revival in demand, which contributes to the growth of real money incomes of the population.

**The dynamics of annual inflation is formed below the National Bank's expectations.** At the end of March 2021, annual inflation rate decreased to **7.0%** compared to 7.4% in February and January 2021.

**The food component** continues to make a major contribution to inflation, despite a slowdown in annual growth rates of prices from 11.6% in February to 10.7% in March 2021. In the structure of food commodities, a deceleration in the annual growth rates of prices for most of the food products is observed, which is considerably explained by the high base of 2020, when a significant increase in prices was marked due to increased demand and a break in supply chains. However, the annual price growth for certain goods (sunflower oil, eggs) continues.

The inflation in **the non-food component** accelerated from 5.2% in February 2021 to 5.6% in March 2021. This is particularly due to higher prices for footwear, clothing and gasoline. Previously, these goods had the main restraining effect on non-food inflation.

A decrease in the growth rate of prices is observed for **paid services**. Inflation of this component slowed down from 4.2% in December 2020 to 3.7% in March 2021. The main factors of the decline were the annual deflation on regulated utilities and the deceleration in annual growth rates for rental housing and transportation services.

Various estimates of **core inflation indicate the formation of inflationary processes predominantly above the target band**. The economy is still experiencing high price growth for certain food products, and the dynamics of price growth for some non-food products and services may indicate a gradual recovery in consumer demand.

**An increase in inflationary expectations is observed.** In March 2021, the quantitative estimate of inflation for the year ahead comprised 6.9% (6.7% in February 2021). The share of

respondents expecting continued growth or more rapid price increases over the next 12 months increased to 44% (42% in February 2021).

**The situation in the domestic economy is gradually improving and developing in accordance with the forecasts of the National Bank** (growth by 3.4-3.7% in 2021). The economy of Kazakhstan in the first quarter of 2021 contracted by 1.6% in annual terms. After the decline in GDP in January, the pace of economic contraction slowed in February. In March, the dynamics of GDP passed into the growth zone. Manufacturing, construction, information and communications, agriculture and the public sector demonstrated stable growth. The main negative contribution to the GDP dynamics was made by the mining industry, trade and transport.

The results of a **survey of enterprises** by the National Bank also indicate an improvement in sentiment in the real sector. In March 2021, the PMI exceeded 50 for the first time since the beginning of 2020, reaching 50.6. The recovery of economic activity is observed in industry and service sector. In construction, the downward trend in business activity continued, the indicator dropped by 0.9 points. Enterprises also note an improvement in the business environment.

In January-February 2021, **real incomes of the population** demonstrated positive dynamics and increased by 3.3%. The growth in income was driven by continued growth in real wages and pensions.

**The situation in the external sector remains uncertain.** Due to ongoing vaccinations and additional financial support measures, stronger than previously predicted **global economic growth** is expected in a number of countries. The IMF raised its forecasts for global economic growth in 2021 from 5.5% to 6.0%, including among the economies of the trading partner countries of Kazakhstan: in the EU - from 4.2% to 4.4%, in China - from 8.1% to 8.4%, in Russia - from 3.0% to 3.8%. Meanwhile, compared with the October estimate, the IMF revised the growth of the economy of Kazakhstan in 2021 from 3.0% to 3.2%.

Manufacture industry remains one of the main drivers of growth. Even though, the risks of a slower recovery in global demand still persist owing to the unstable epidemiological situation in the world and the emergence of new strains of the virus, accelerating inflation in developed countries, as well as increasing geopolitical tensions.

**Prices continue to rise on the world food markets. The FAO food price index** rose for the tenth month in a row and in March 2021 was 118.5 points, reaching the highest value since June 2014. This is stipulated by the rise in the price of vegetable oils, meat and dairy products.

**In the countries-trading partners of Kazakhstan, the acceleration of inflationary processes is observed.** In China, after two months of deflation, price growth resumed. At the end of March 2021, annual inflation was 0.4%. In the EU, price growth accelerated to 1.7% in March 2021. In Russia, as a result of increased inflationary pressure under expanding demand, annual inflation accelerated and formed at the level of 5.8%.

Due to the growing inflationary pressures, the central banks of certain developing countries, including Russia, Turkey, Brazil, and Ukraine, tightened monetary conditions in March 2021. Since the beginning of the year, the Central Bank of Russia has twice raised the key rate from 4.25% to 5.0%.

**The current situation in the world oil market is improving with the support of global vaccination programs and incentive packages in key countries.** The price of Brent oil has been held above \$62 per barrel since the beginning of April 2021. An additional supporting factor is the oil shortage formation caused by accelerated consumption.

Given the rapid recovery in consumption, international organizations slightly adjusted their forecasts upward. According to EIA estimates, the average annual price for Brent oil in 2021 will be \$62.3 per barrel, in 2022 - \$60.5 per barrel. The main risks of the oil market development future are

related to the further dynamics of the COVID-19 incidence rates, the pace of increasing OPEC+ production and the potential increase in exports from Iran.

Given the external and internal inflation risks, the further slowdown in annual inflation may occur at a slower pace. The expected increase in electricity tariffs and the increase in expenditures of the republican budget mainly on account of the allocation of an additional target transfer from the National Fund for 850 billion tenge are new conditions for the forecast and require an assessment of the impact on the inflation trajectory in the short and medium term.

The next decision on the base rate will be made on the results of the upcoming forecast round "May-June 2021" and rested on updated inflation forecasts and other macroeconomic indicators, as well as the risks balance.

The next planned decision of the Monetary Policy Committee of the National Bank of the Republic of Kazakhstan on the base rate will be announced on June 2021 at 15:00 Nur-Sultan time.

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