



NATIONAL BANK OF KAZAKHSTAN

## Press-Release № 12

### The base rate raised to 9.25%

July 26, 2021

Nur-Sultan

The Monetary Policy Committee of the National Bank of the Republic of Kazakhstan has made a decision to set the base rate at **9.25%** per annum with the interest rate corridor of  $\pm 1.0$  percentage points. Consequently, the rate for the liquidity provision standing facilities set on 10.25% and for the liquidity withdrawal standing facilities at 8.25%. Weighted tightening of the monetary policy is caused by the need to forestall the risks of twisting an inflationary spiral and return inflation to the target band of 4-6% in 2022. Meanwhile, the influence of the unstable epidemiological situation in the world and, in particular, in Kazakhstan, on the recovery of business activity was taken into account. The raise in the rate will maintain the attractiveness of tenge assets, which will increase the efficiency of pricing in the foreign exchange and money markets, in order to form expectations that exclude unwanted balances.

The decision was stipulated by realized inflation risks from supply and sustained inflationary pressure in the economy from the demand. Inflation is forming above forecasts, while expectations for further price increases remain high and loose. The rapid restoration of economic growth and the dynamics of consumer activity, with a significant fiscal impulse, form a pro-inflationary trend.

At the same time, such important factors as the rise in prices for certain groups of food products due to the general global trend of growing food prices, disruptions in supply chains, rising producer prices accompanied by increasing prices for raw materials and supplies, as well as the continuing potential for growth in regulated prices are concentrated on supply side. International experience shows that the impact of the transmission mechanism of monetary policy on supply shocks is limited, and inflation adjustment to these changes is unavoidable. Based on this practice, the National Bank, by its decision, responds to a greater extent to risks from the demand associated with increased inflation expectations.

**By the end of June 2021 the annual inflation amounted to 7.9% (7.2% in May 2021).** As a result of the risks realization, all components of inflation have increased. A significant uncharacteristic for the summer months' price increase of 1.1%, in June 2021 is the highest value for the given month since 2009.

**Food inflation** accelerated to **10.6%** in June 2021 and continued to bring in the major contribution to total inflation. This is related to a sharp rise in the prices of vegetables, in particular, potatoes, carrots and beets. This growth sets a record and is observed not only in Kazakhstan, but also in neighboring countries (Russia, Uzbekistan, Tajikistan). In general, food price increases have been observed around the world. Thus, the FAO food price index in June 2021 demonstrated an increase of 33.9% in annual terms.

**The non-food component of inflation** accelerated to **6.9%** in June 2021 in view of the risks realization of the deferred demand effect. The annual growth rate of gasoline prices continued to accelerate due to the producer price growth and continued recovery of demand. The recovering consumer demand also contributed to the rise in prices for clothing, footwear, cars, household appliances and furniture. Additional pro-inflationary pressure on non-food products is provided by the increasing prices for import deliveries due to accelerating inflation in trading partner countries and growing world prices for raw materials and intermediate materials.

The annual growth in prices for **paid services** to the population amounted to **5.6%** in June, which was associated with the rise in prices for both regulated and unregulated services. An annual increase in prices for air transport services, travel services (sanatoriums, holiday homes, trips abroad), personal care services and home renovation services has been observed.

**The inflation expectations of the population remain unstable.** In June, the quantitative assessment for the year ahead increased and amounted to 7.3%. The share of respondents who noted a very high price increase over the last month reached a historical maximum, rising to 59% (in May - 49%). In addition, in June, the share of respondents who noted an increase in food prices rose to 87%.

**The situation in the real sector of the economy continued to improve.** For the first half of 2021, real GDP growth amounted to 2.2% in annual terms. The economy is recovering owing to the rising global commodity prices and easing quarantine restrictions. The manufacturing industry, trade, construction, information and communications, and agriculture showed a stable growth in January-June 2021. The results of a survey of enterprises by the National Bank also indicate an improvement in sentiment in the real sector. Thus, in June 2021, the business activity index increased by 0.5 points, amounting to 51.6 (in May 2021 - 51.1). The rate of decline in investment activity is slowing down. At the end of the first half of 2021, the decline in investment in fixed assets amounted to 1.8%, with a decrease in the first quarter by 9.6%.

**A significant recovery in consumer activity of the population exerts notable inflationary pressure.** In the first half of 2021, retail turnover increased by 7.6% (y/y) after a decrease of 1.2% (y/y) in the first quarter. In the structure of retail trade turnover, the turnover of non-food products is growing at an accelerated pace. The growth of household consumption is supported by positive growth rates of household income, as well as a significant increase in lending for consumer purposes. The recovery of domestic demand given the fiscal stimulus is reflected in a significant increase in consumer imports. In 5 months of 2021 the **import of consumer goods** increased to 4.7 billion US dollars, which is **30.4%** higher than the pre-epidemic level of 2019.

**The global economy continues to recover, however, the epidemiological situation, which has affected the increase in demand for goods and services and supply disruptions, creates significant risks of a prolonged wave of inflation in the world.** According to the IMF forecasts, this year the growth rate of the world economy will be 6.0%, in 2022 it will slow down to 4.4%. Economic growth is also expected to recover in the trading partner countries: the EU economy will grow by 4.4% in 2021, Russia-by 3.8%, China-by 8.4%. At the same time, a significant spread of the COVID-19 delta strain has been recorded in many countries of the world. Restrictive measures are being resumed, which, in turn, negatively affects business activity in the manufacture and services industries. Thus, the Global Composite PMI in June fell to 56.6 points for the first time since January 2021 (in May 2021 – 58.5 points). Manufacturers report that demand for goods remains high, however, production volumes are declining due to the disruption of global supply chains and high prices for raw materials and intermediate goods. The resumed increase in incidence, as well as supply disruptions, also had a negative impact on world trade, as evidenced by the weaker indicators of the

leading indicators of the New Export Orders Index PMI in June 2021 (a decrease from 54.9 points in May to 53.2 in June 2021). The factor of the predominance of demand for goods over supply enlarge the risk of an increase in inflationary pressure in the world.

**The global trend of inflation growth also affected the countries – the main trading partners of Kazakhstan.** In the EU and Russia, inflation is formed above the target indicators. In the EU, in June 2021, annual inflation accelerated to 2.2% with a target of 2.0%. In China, after the deflation noted at the beginning of the year, annual inflation rose to 1.1% in June 2021. In Russia, annual inflation in June reached 6.5% (the maximum since August 2016) with a target of 4.0%. In response, monetary conditions in Russia have been tightening since the beginning of 2021. With the latest decision, the Central Bank of the Russian Federation raised the rate immediately by 100 b.p. to 6.5%. The trend of tightening monetary policy is also observed in other countries. Thus, in 2021, 18 central banks have already raised key rates to slow down inflationary processes.

**There is significant volatility in the global oil market due to the growing uncertainty associated with the spread of the COVID-19 delta strain.** During June, the average monthly price of Brent crude oil grew and varied in the range of 70.3 – 76.2 US dollars per barrel. However, in July, after the OPEC+ countries reached an agreement on a monthly increase in oil production by 400 thousand barrels per day from August of this year and a revision of the production quota for some members of the alliance from May 2022, the price range expanded to 68.6 – 77.2 US dollars per barrel. Despite the increase in demand for oil and a decrease in its reserves, the main source of increased volatility on world markets is the further spread of the coronavirus delta strain, which reduces the forecasts accuracy for further price dynamics and may slow down the global economic recovery and, accordingly, reduce oil demand.

Taking into account the lags of the base rate changes impact on the economy and the expected inflation exceeding the target range of 4-6% by the end of 2021, subsequent decisions of the National Bank on the base rate will be made by taking into account the inflation entry into the target range in 2022. Based on the results of the upcoming forecast round in September 2021, the National Bank is ready to take measures to further tighten monetary conditions in case of an increase in pro-inflationary factors. In the second half of 2021, a further acceleration of inflation is possible given the seasonally low base of food inflation in July and August last year, as well as the implementation of the deferred demand effect.

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 September 13, 2021 at 15:00 Nur-Sultan time.

**More detailed information for mass media is available upon request:**

+7 (7172) 775 201

e-mail: [press@nationalbank.kz](mailto:press@nationalbank.kz)

[www.nationalbank.kz](http://www.nationalbank.kz)