



## Press-Release № 17

### The base rate raised to 9.50%

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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 **9.50%** per annum with the interest rate corridor of +/- **1.00** percentage points. Consequently, the rate for the liquidity provision standing facilities set on 10.50% and for the liquidity withdrawal standing facilities at 8.50%.

The decision was stipulated by the prevailing pro-inflationary pressure in the economy caused by global inflationary trends in food and raw materials prices, with a faster recovery of global demand over output. This pressure is reinforced by internal off-season shocks and actively recovering consumer demand, as well as rising prices for electricity, gas and fuel. As a result, annual inflation accelerated to **8.7%**. The inflationary background is also strengthened by the increased inflation expectations of the population, which in August amounted to **8.8%**.

**Re-emerging COVID-19 outbreaks have slowed down business activity in the world and aggravated global supply problems, strengthening pro-inflationary processes.** According to the IMF forecasts, due to vaccination and stimulus measures, the world economy will show a rapid recovery this year, followed by a slowdown in 2022. The international organizations forecasts for the Kazakhstan's trading partners' economies growth have been improved for the EU and Russia, and for China they have been slightly reduced. Global inflationary pressure continues to remain at an elevated level due to an increase in prices for food, raw materials, metals and cars.

The contribution to the inflationary trend is formed by increased world food prices. This is evidenced by the growth in annual terms of the FAO food price index in August 2021 by **32.9%**. As a result, manufacturers around the world report continuing problems with supplies and high prices for logistics, raw materials and final products. Thus, according to the Baltic Dry Index, the container shipping cost increased by **3.4** times compared to December 2019, and by **7.4** times compared to May 2020. Due to this, the total level of inflation in the countries continues to grow, exceeding the targets of the monetary authorities. Thus, in the United States, inflation in July 2021 reached the maximum value in 13 years – **5.4%**, in the Eurozone – the maximum value in 10 years of **3%**, in Russia – the maximum value in 5 years of **6.7%** in August 2021 year. In this regard, representatives of the world's largest regulators declare the expediency of an earlier winding down of the asset purchase program, and developing countries have already begun a cycle of tightening monetary conditions. At the same time, the reduction of monetary incentives from the US Federal Reserve and the ECB may lead to an increase in volatility in financial markets.

**As a result, food inflation remains the main driver of price growth**, which reached **11.4%** in August. The average monthly inflation values since April 2021 exceed the average values for the last 20 years, which is unusual for the summer months. A significant contribution to the current acceleration of annual food inflation was made by a sharp jump in prices for vegetables (by 26.1%),

in particular for long-term vegetables (potatoes – by 29.7%, carrots – by 68.2%, beets – by 124.0%). Because of domestic stocks depletion before the new crop arrival, the monthly increase in prices for these products showed record values, uncharacteristic for the summer period. There is an increase in prices for meat and meat products (by 9.5%), caused by an increase in producer prices due to an increase in feed crops cost. Following the global trend, the accelerated growth of prices for vegetable oils continued (sunflower – by 66.8%, olive – by 9.0%), caused by supply reduction in the world market.

**Non-food inflation** accelerated to **7.3%** in August 2021 as a result of the continued increase in prices for fuel and lubricants (by 13.1%), clothing and footwear (by 6.5%). The factors of the increase in fuel prices are the increase in the production cost and the economic activity recovery, while the prices of clothing and footwear are growing due to the increase in prices for imported goods and the consumer demand recovery.

**Paid services inflation** in August 2021 was **6.6%**. The increase in prices for paid services is caused by an increase in tariffs for regulated public utilities (an increase of 6.3%) as a result of an increase in electricity prices (by 10.1%). Also, in the structure of service inflation there is an increase in the transport services cost (by 4.1%), in particular air transport (by 21.3%), and a number of other unregulated services given the consumer demand recovery.

**Economic activity demonstrates dynamic growth rates** given the recovery of many sectors of the economy. In 7 months of 2021, GDP growth amounted to **2.7%** in annual terms. The demand recovery in the industries continues, as well as an increase in the production capacities utilization and the volume of products produced. The composite leading indicator, which is an aggregated assessment of real sector enterprises, rose to **100.1** in the second quarter of 2021 and will continue to grow to **100.2** in the third quarter of 2021, according to the National Bank surveys. A significant contribution to the economy growth is made by the demand recovery, that is confirmed by the retail trade positive dynamics, which increased by **6.1%** in January – August 2021 due to the growth of trade in non-food products, supported by the accelerated pace of consumer credit. At the same time, high domestic demand is reflected in imports increase of consumer goods, which increased by **27.3%** in the first half of 2021. The demand is supported by the positive dynamics of population real incomes. Thus, in the second quarter of 2021, despite the further acceleration of inflationary processes, real income growth continued, amounting to 1.5%. Additional pro-inflationary pressure continues to be made by the transfers volume from the National Fund, which reached **4.55** trillion tenge in 2021 as part of the anti-crisis measures implementation.

**The prospects of the global oil market development as a whole remained unchanged.** By the end of August 2021, Brent crude oil prices fell by 4.4% due to the spread of the delta strain and the global economic growth slowdown. Oil reserves in the United States continued to decline (the decline was 13.8 million barrels in August, 13.1 million barrels in July and 26.9 million barrels in June), however, the pace of change slowed down. According to the updated forecasts of the International Energy Agency, the growth of oil demand in 2021 will be lower than previously expected. It is expected that the oil market will be relatively balanced by the end of the year. At the same time, from 2022, due to the OPEC+ countries agreement on a monthly increase in production by 400 thousand barrels per day and an increase in oil production in the United States, oil supply will outpace demand growth, creating prerequisites for oil prices correction. **Taking into account these trends, the main assumption for the baseline scenario forecast is the oil price of \$60 per barrel in the remaining months of 2021 and until the end of the forecast period.**

**According to the baseline scenario, the GDP growth forecast until the end of 2021 has been revised down slightly**, which is due to a slightly slower economic recovery than previously expected. In 2021, Kazakhstan's GDP growth is expected at the level of **3.5–3.8%**. The main driver will be actively recovering consumer demand, which is supported by moderate growth in real incomes. GDP growth

will also be supported by real exports due to an increase in external demand and energy production volumes. In turn, imports increase will have a restraining effect on GDP growth as a result of the domestic consumer activity recovery and a slight increase in investment activity.

Economic growth in 2022 is projected at **4.1–4.4%**, which is slightly higher than the previous estimate. The economic growth acceleration will be accompanied by the weakening impact of the pandemic on economic activity and an increase in oil and gas condensate production as a result of the gradual easing of OPEC+ restrictions.

When updating the inflation basic forecast, an Anti-inflationary Response Package approved by the Government on behalf of the President of the Republic of Kazakhstan to stabilize non-monetary factors of inflation was taken into account. The adoption of operational measures will allow, according to the Government, to reduce food inflation to **8%** by the end of this year. Taking into account the historical dynamics of inflation in the last 4 months of the year, as well as the effectiveness degree of Anti-inflationary Response Package implementation, in 2021 annual inflation will be in the range of **7.5–8.5%**. In the baseline scenario, inflation processes will maintain the current dynamics until the end of the year, and by the end of the year, inflation will be closer to the upper limit of the forecast range. The lower limit of the inflation forecast range is determined given the potential for reducing inflation as part of the effective implementation of an Anti-inflationary Response Package by the Government. Subsequent decisions on the base rate will be made, including given the assessment of the implemented anti-inflationary measures effectiveness.

In 2022, moving from the high base of 2021, inflation will begin to slow down to the upper limit of the target corridor of 4–6%. The slowdown in inflation will occur as a result of softening of the external inflationary background and the expected decline in world food prices after their significant increase this year. At the same time, the disinflation processes in 2022 will largely depend on the expected grain harvest in Kazakhstan this year, the global supply chains restoration and the level of the domestic economy fiscal stimulation in 2022–2023.

The National Bank will continue to conduct a deflationary monetary policy, assessing the effectiveness of anti-inflationary measures implementation and the risks of monetary incentives reduction from the US Federal Reserve and the ECB. These measures, in accordance with the Monetary Policy Strategy 2030, will help reduce inflation to the target range of 4–6% in 2022.

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 October 25, 2021 at 15:00 Nur-Sultan time.

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