



NATIONAL BANK OF KAZAKHSTAN

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On the base rate

October 3, 2016

Almaty

The National Bank of Kazakhstan has decided to reduce the base rate to 12.5% with a corridor of +/- 1 percentage points. The reduction in the base rate reflects positive trends in the key segments of the external market, as well as a stable situation in the domestic financial market. The National Bank of Kazakhstan will continue to reduce the base rate provided that the approaching pace of the annual inflation to the target band is confirmed, as well as the stability of the trend of changing currency preferences in favor of tenge instruments is preserved.

The decision on the base rate was made with the account of the following factors.

For 9 months of 2016 inflation amounted to 5.6%, in annual terms – 16.6%. The sharp slowdown in the annual inflation rate is expected in October-November this year. In this regard, the National Bank expects that the annual inflation will approach to the upper boundary of the target band (6-8%) by the end of 2016 and will be within the target band in the course of 2017 in the absence of negative shocks.

The results of the National Bank's survey show that inflation expectations of households have continued to decrease. According to the results, the share of respondents expecting high growth in prices has decreased. In September inflation risks and devaluation risks induced by July-August dynamics in world oil prices have noticeably lessened.

Devaluation expectations of market participants are decreasing, that is evidenced in a steady decline in interest rates on non-deliverable forward contracts used to hedge currency risks. Decrease in prices is present both in the short-term and on the horizon of a year.

In August 2016 the short-term economic indicator, which characterizes the developments in main sectors of economy, grew by 0.2% in annual terms. Macroeconomic indicators show a gradual adaptation of the economy to changes in external conditions and exchange rate volatility.

Situation in the financial market remains stable. The National Bank's operations keep market interest rates within the interest rate corridor of the base rate. Formation of the term structure of the yield curve continues.

Despite the positive trends, risks remain that require a balanced approach to the change in the base rate. A further decision on the base rate will depend on the trend in actual and forecasted inflation and currency preferences of the population and market. Provided that the slowdown in inflation processes and the trend towards a steady decline in the annual inflation are confirmed, as well as a stable growth of tenge deposits is observed the reduction in the base rate until the end of this year is not ruled out.

The next decision on the base rate will be announced on November 14, 2016 at 17.00 Astana time.

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