



## NATIONAL BANK OF KAZAKHSTAN

### P R E S S - R E L E A S E №33

#### On realignment of Tenge exchange rate band in relation to the US dollar

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Almaty

According to the «Law On the National Bank of Republic of Kazakhstan» the primary objective of the National Bank is to provide price stability.

In 2015, National Bank has initiated a set of measures to increase the effectiveness of the monetary policy instruments to provide a successful and eventual transition to the inflation targeting for medium term.

Currently, monetary policy of the NBK is based on the exchange rate band regime, taking into account that there is a high importance of the exchange rate for the inflation and the economy. Thus this regime allows fluctuations of the exchange rate within the set margins without any steep fluctuations.

In practice the currency band has been the most optimal and pragmatic way to provide the stability of the national currency and financial system during the period of high volatility and uncertainty of exchange rates of developing countries and world oil prices. This uncertainty reached its peak in the second half of 2014 and caused devaluation expectations on Kazakhstan markets. Improving external economic factors, reduction of oil price volatility, and comparative stability of exchange rates of developing markets have allowed the National Bank to start the transition to more flexible and gradual change of the dollar/tenge rate within the set band avoiding steep fluctuations.

Under the flexible and gradual exchange rate regime, the nominal exchange rate has increased by 3.4% when compared to the December 2014. There was a substantial inflation slowdown and in June 2015, the consumer prices decreased by 0.1%. Annual inflation amounted to 3.9%. In the period from January to May 2014, real exchange rates of Russian ruble to US dollar have decreased by 26% and 2.1% respectively. Overall, the real effective exchange rate has decreased by 5.1%.

This implies that more flexible and gradual exchange rate determination leads to the enhancement of external competitiveness of the national economy. Thus, National Bank intends to pursue this policy during the second half of 2015.

**In order to pursue the policy of more flexible and gradual exchange rate determination as a part of the transition to inflation targeting and also taking into account that the current rate approached the upper margin of the band, National Bank has decided to expand the tenge/US dollar band from 185 +3/-15 tenge to 185 +13/-15 tenge.**

The policy of more flexible and gradual rate determination pursued by the National Bank in the first half of 2015 significantly decreases the risks for high devaluation expectations in the economy and creating the pressure on the local currency market. So it helps to avoid the necessity of providing steep sudden exchange rate adjustment that took place in 2009 and 2014.

National Bank is planning to complete the transition to free floating rate no earlier than 2017.

National Bank will continue its participation on the local currency market via currency interventions in order to maintain financial stability and to smooth steep changes and short-term volatility of currency rate.

At the same time, long-term exchange rate determination will be based on fundamental local and external macroeconomic factors. This means that the local currency may weaken or strengthen depending on the global economic situation and local currency market.

Expansion of the band is a part of National Bank's policy on sustaining more flexible and gradual exchange rate determination. It will create conditions for greater external competitiveness and lending activity that in turn will lead to a better economic growth and employment.

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