***The Governor E. Dossaev’s Statement***

***on the base rate of the National Bank***

***October 28, 2019 Almaty***

**Dear representatives of the media community!**

Today, the National Bank has decided **to maintain the base rate** at 9.25% per annum and the interest rate corridor **+/- 1 percentage point**.

Inflation processes are formed in accordance with our estimates, which were made based on the results of the previous base rate decision and the forecasting round held in August-September this year. The National Bank expects inflation to remain within the target range of **4-6%** until the end of this and next year. Inflation expectations of households over the past months formed close to the level of actual inflation.

As for inflation risks, their balance in the medium term has not undergone significant changes. However, there are still risks in the short term associated with the dynamics of prices for regulated services and certain types of food products, as well as the risk of lower oil prices amid slowing global economy.

I will focus on the factors behind the decision made.

**THE FIRST FACTOR is the current inflation rate that formed in accordance with our previous forecasts.**

In September this year the inflation was **0.3%**. In annual terms, it amounted to **5.3%.**

Non-food inflation and paid services inflation, which formed at the level of **5.4%** and **0.7%**, respectively, have a restraining effect on the overall level of inflation.

In the composition of the non-food items, inflation continues the annual decline in prices for **gasoline** and **solid fuel**, which in September amounted to **4.8%** and **3.5%**, respectively. Moreover, last month there was no seasonal increase in the price of outerwear and shoes typical for this time of the year.

As part of paid services, **regulated services** have become **8.2%** cheaper over the past 12 months.

The risk of inflation comes from the possible increase in excise taxes on wholesale and retail sales of gasoline. Also on November 1, the Ministry of Energy raised marginal tariffs for 32 power plants.

The impact of these factors has already been taken into account previously in our estimates for inflation next year. A considerable increase in inflation against this background is not expected.

**The SECOND FACTOR is the persistence of the inflationary pressure from food items, which is related to the global market situation.**

The growth of the food component in September of this year amounted to **9.1%** in annual terms. Within this component, the prices of meat and meat products, as well as bakery products and cereals, especially flour, bread and pasta, grow faster than other components. Meat and meat products became 13.5% more expensive in annual terms, whereas bakery products and cereals - 12.7%.

Amid rising global demand for meat, exports of Kazakhtan’s meat increased 2.7 times in January-August 2019, according to the Ministry of Agriculture, which caused a decline in supply in the domestic market.

The world consumption of cereals is growing faster than their production, even though the gross cereal harvest in the world in the season 2019-2020 is expected to hit the highest level in the last 10 years.

As I mentioned in the previous announcement of the base rate decision, these two food groups contributed an additional **1 percentage point** to the annual inflation. According to our estimates, food inflation will rise until the end of this year and, after stabilizing in the 1st quarter of next year, will begin to slow down until the end of 2020.

**The THIRD FACTOR is the stabilization of households’ inflation expectations at a level close to actual inflation.**

In September of this year, inflation expectations of households on the horizon of the next 12 months are estimated at **5.4%**. They have been observed at this level for the last four months.

According to the latest survey, the proportion of respondents who expect persisting or higher growth in consumer prices over the next 12 months fell to 54% in September compared to **58-60%** in May-August.

**The FOURTH FACTOR is the expanding domestic demand and business activity, exerting an inflationary pressure.**

The growth of households’ real disposable income in January-August of this year reached **6.7%**. These trends are reinforced by budget spending on social support and increase, primarily, in wages. In addition, consumer lending continues expanding.

**The domestic economy shows consistent growth.** According to preliminary results of 3 quarters of 2019, Kazakhstan’s real GDP grew up by **4.3%**. Growth in construction, trade, transportation, manufacturing and mining contributed to this development.

In January-August this year, investments in fixed assets increased by **9.7%**.

**The FIFTH FACTOR is the risks of lower oil prices amid a slowdown in the world economy, which raise inflation risks.**

Since the beginning of this year **the average Brent crude oil price** on world markets was **64 US dollars** per barrel compared to **72 US dollars** per barrelon average in 2018. The world's leading agencies, analyzing the oil market in September-October 2019, revised their estimates on the dynamics of oil prices for the current and next two years, due to high production volumes and the growth of world oil reserves. The average forecast price for the current year was reduced by 2 US dollars to **65 US dollars** per barrel. For 2020-2021 the estimates were revised down by 3-5 US dollars per barrel to **62** and **65 US dollars** per barrel, respectively.

Nevertheless, this level exceeds the prices **incorporated in our base scenario**. To remind you, it is **60 US dollars** per barrel.

**Geopolitical tensions** in the Middle East, as well as the failure to reach agreements in **trade disputes** between the world's leading economies, remain unfavorable factors for the further development of oil prices.

A trend of slowing global economy continues to pave its way. Its growth rate, according to the latest October IMF estimates, this year will be 3.0%. This is the lowest growth rate since 2008-2009. Global growth is expected to recover to 3.4% next year.

**The SIXTH FACTOR is the easing of external monetary conditions and external inflation background, which reduces the risks of importing inflation to Kazakhstan.**

On **October 25**, **the Central Bank of Russia** decided to reduce the key rate to **6.5%** amid inflation falling down to the target level, which is due to the weak domestic and external demand.

**The People's Bank of China** announced another reduction in reserve requirements amid record low economic growth. **The European Central Bank** is reducing deposit rates and plans to resume its quantitative easing program.

**Inflation in the countries - main trading partners is formed at a moderate level.**

The inflation in Russia and China in September this year formed at the target levels of **4.0%** and **3.0%**, respectively.

Given that about **50%** of imported non-food items are Russian products (*in physical terms*), this will contribute to disinflationary processes.

In the European Union, the September results revealed an inflation decline to **1.2%** under the target level of 2%.

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The National Bank estimates show that at the end of this year, **inflation** will form in the range of **5.7-5.8%**, as we announced during the September decision on the base rate. We expect inflation to slow down to 5.5% level by the middle of the next year and form close to the middle of the target corridor of 4-6% by the end of 2020.

**Current monetary conditions are estimated to be close to neutral. The base rate in real terms**, taking into account today's decision, is estimated in the range of **3.5%**, which corresponds to our neutral target range.

As part of its monetary policy, the National Bank is expanding its capacity to regulate short-term liquidity. On October 15 of this year, an additional window was opened by the National Bank to provide and withdraw liquidity, denominated in the national currency, by the means of SWAP and REPO operations. On a daily basis, upon the initiative of banks, the National Bank will conduct operations in an additional window from 5:00 to 5:30 PM.

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The next decision on the base rate will coincide with the next forecast round. We will present updated forecasts on the main macroeconomic indicators, including the dynamics of inflation on the forecast horizon until mid-2021.

The decision itself will be announced on December 9, 2019 at 3:00 PM Nur-Sultan time.

**Thank you for your attention!**