



NATIONAL BANK OF KAZAKHSTAN

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The base rate remains unchanged at 9.00%

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Nur-Sultan

The National Bank of Kazakhstan has made a decision to maintain the base rate at **9.0%** per annum with the narrowing of the corridor to +/- 1.0 percentage points. Consequently, the rate for the liquidity provision standing facilities set on **10.0%** and for the liquidity withdrawal standing facilities – **8.0%**.

The decision was made on the basis of the fundamental instability in the oil market, the high and weakly anchored inflation expectations, still continuing uncertainty about the epidemiological situation in the country and in the world, and also the timing of mass vaccination. Anchoring the inflation expectations is the basis for achieving the target objections in years of 2021-2022, which will allow to achieve the inflation target of 4-6% by the end of 2021 at the current level of the base rate.

Annual inflation rate in November, 2020 has accelerated to **7.3%** after the stabilization at the level 7.0-7.1% in June-October of the current year. The dynamics of the inflationary processes continues to remain above the target band of 4-6%.

The food component of inflation continues to make the main contribution to the formation of inflationary processes. At the same time, international prices for grain have been growing for the fourth month in a row, which creates additional inflationary risks. Growth in food prices, after a slight slowdown in previous months, accelerated again to **10.8%** in November 2020, despite a slowdown in price growth for certain types of goods, such as meat and bakery products. In November 2020, the acceleration of prices of sugar and sunflower oil continued amid rising world prices.

Non-food inflation in November 2020 accelerated to **5.7%** in annual terms. In connection with the pandemic, prices for medicines continue to increase by 9.7%, household goods by 7.5% and detergents and cleaning products by 10.2%. The disinflationary effect is caused by a weak consumer demand, a decrease of real money incomes of households and an existing quarantine restrictions in the country. Non-food inflation is restrained by the slowdown in the annual growth rate of prices for fuels, oil and lubricants to 1.7%, as well as by the shift in consumer preferences of the households towards cheaper imported goods.

The inflation of paid services in annual terms also showed an acceleration to **4.1%**. This was facilitated by the rise in prices for both regulated (utilities) and unregulated services (hospital services, education, repair of footwear and cars).

According to the National Bank's estimates, in August-October 2020 **the seasonally adjusted annualized growth** in consumer prices formed closer to the upper limit of the 4-6% target band. However, in November 2020, due to the increasing prices for certain goods (oils and fats, sugar, outerwear, thermal energy), it accelerated to 7.4%, thereby significantly exceeding the target band.

Inflation expectations of the households are weakly anchored and remain sensitive to the imbalances in the food markets and the increase in the level of uncertainty due to the worsening epidemiological situation and tougher quarantine measures in the country's regions. The quantitative **estimate of inflation expected in a year** in November 2020 increased to **7.8%**. The share of respondents who expect the current price growth to continue or to accelerate over the next twelve months increased to 52% (in September - 49%).

The inflation forecast in Kazakhstan at the end of 2020 has been revised downwards. Annual inflation in December 2020 is expected to be in the range of **7.3-7.5%** due to the more significant disinflationary impact of domestic demand amid repeated quarantine measures. Nevertheless, medium-term inflation forecasts have not undergone significant changes - a gradual slowdown towards the upper limit of the target band of 4-6% will occur only by the end of 2021.

According to the results of 11 months of 2020, **the economy of Kazakhstan** contracted by **2.8%** in annual terms - the decline in economic activity turned out to be deeper than expected. This is due to a 3.4% reduction in the mining industry, as well as the implementation of the negative scenario of the second coronavirus wave. In the service sector, the negative contribution of trade has continued since the beginning of the year due to a decrease in wholesale trade turnover amid a decrease in exports of oil and certain types of metals. At the same time, due to the softening of restrictive measures in some regions, an increase in the volume of retail trade is observed. The dynamics in transport is also in the negative zone. The sectors of construction (12.1%), information and communications (8.4%), and agriculture (5.3%) made a positive contribution to the dynamics of GDP.

In October 2020, there was a deterioration in **investment activity** (a decrease of **4.7% yoy** since the beginning of the year). The fall in investment in the mining industry, construction and trade is partially offset by positive dynamics, and in some cases by the acceleration of investments in other sectors of the real and public sectors of the economy.

Leading indicators recorded a continuing recovery in economic activity. In November, the business activity index continued growth and improved by 0.6 percentage points from **48.8 to 49.4**. The growth of the index was largely influenced by the improvement in the situation in construction, which for the first time since February this year entered the positive zone, reaching a value of 52.5. In industry and services, the situation remained practically unchanged, the indices were 49.6 and 48.7, respectively.

In the third quarter of 2020, after a significant drop in the second quarter, due to the gradual lifting of quarantine restrictions, **the real household consumption** is gradually reviving. This is confirmed by the data on retail trade turnover, which has been showing positive dynamics since August 2020.

The pandemic continues to have a negative impact on **the development of the global economy**. Another wave of coronavirus, which led to repeated quarantine measures in many countries, negatively affected economic activity, in particular this applies to most EU countries. In the meantime, the United States is showing the highest values of business growth since 2018, driven by the realization of deferred demand.

A slower and more uneven **global growth recovery** is expected during 2021-2022. External demand from the countries - the main trading partners of Kazakhstan will recover unevenly, which is confirmed by the projected growth rates in 2021: in Russia - 3.1%, in the EU - 4.5%, in China - 7.9%. This can be explained by the prolonged unavailability of large-scale vaccine use and the ongoing

restrictive measures to combat COVID-19, which have a negative impact on consumption and business activity.

Annual inflation in the countries - the main trading partners emerges in different directions due to different epidemiological and economic situations. Considering that and the growing uncertainty about the future development of the pandemic, the monetary conditions in the countries remain extremely adaptive.

In Russia, in November 2020, annual inflation unexpectedly accelerated to **4.4%**, which was primarily caused by the rise in food prices. To ensure price stability, the Government of the Russian Federation has been tasked to take appropriate measures, including of those of the administrative nature.

News on coronavirus vaccines had a positive impact on **world oil prices**, which reached 50 US dollars per barrel for the first time since early March. The oil market also positively reacted to the decision taken by the OPEC + countries at their meeting on December 3, 2020. Thus, a decision was made to increase the daily oil production more moderately from January 1, 2020 - 0.5 million barrels/day instead of the previously agreed 1.9 million barrels / day. However, this positive news may be temporary due to the possibly longer recovery in oil demand due to uncertainties amid the pandemic, the timing of vaccinations and the risk of accelerating oil production from individual countries.

The stable situation in the money market allowed to narrow the base rate corridor to the pre-epidemic level. As a result, more stable expectations of market participants will be formed and the volatility of money market rates will decrease.

The National Bank will continue to monitor internal and external factors that affect the dynamics of inflation. Further decisions on the base rate will be made taking into account the compliance of the actual dynamics of inflation with its targets, the rate of decline of inflation expectations, recovery in demand, and the balance of inflationary risks.

The next planned decision of the National Bank of the Republic of Kazakhstan about the base rate will be announced on January 25, 2020 at 15:00 Nur-Sultan time.

More detailed information for mass media is available upon request:

+7 (7172) 775 205

e-mail: press@nationalbank.kz

www.nationalbank.kz