



NATIONAL BANK OF KAZAKHSTAN

Press-Release № 5

On inflation forecast

March 6, 2018

Almaty

The National Bank of Kazakhstan has been conducting forecast rounds 4 times a year in order to produce forecasts of key macroeconomic variables, mainly inflation rate, in the medium term (the next 7 quarters). Based on the estimates and projections, the National Bank of Kazakhstan takes decisions on monetary policy, including the level of the base rate.

On March 3, 2018 the National Bank of Kazakhstan completed forecast round "February-March 2018"¹. The forecast period covers period from Q1 2018 to Q3 2019.

In view of more positive price forecasts of the largest investment banks and international institutions for the Brent crude oil, the National Bank of Kazakhstan has considered the price of Brent being 60 US dollars per barrel as a baseline scenario for the whole forecast period (50 US dollars per barrel during the previous forecast round)².

Under the baseline scenario based on the forecasts, there is a possibility that annual inflation in Kazakhstan exceeds the lower bound of the target range of 5-7% during 4Q 2018, but will remain within the target range of 4-6% in 2019 (Figure 1). The main factors of inflation forecast are inflation-neutral domestic demand; positive external conditions, expressed in the growth of oil prices; low inflation in the main trading partners and stable rates of economic growth; equilibrium REER during the forecast period; the absence of significant supply shocks since November 2017.

The economic growth is estimated to be 2.9% in 2018 and 2.8% for the 9 months of 2019. The preconditions for economic growth in the forecast period have not changed. As expected, the growth of investments in fixed assets continues to support the economic growth. The growth rate of investment will be preserved on the current moderate level amid the expansion of production activity. The restoration of the domestic consumption is expected. The recovery of household consumption is slow. On the one hand, the consumption continues to be recharged by growth in retail lending, but is limited by a reduction in the real money income. In view of a more substantial slowdown in inflation processes, positive growth rates of salaries and, as a result, real incomes of households are expected. The growth of imports of consumer and investment goods as a result of expanding domestic demand will restrain GDP growth.

According to the updated estimates of the National Bank of the Republic of Kazakhstan, the output gap in Kazakhstan in the short term will be slightly negative, which will gradually

¹ The forecast of macroeconomic variables is based on statistical information as of February 15, 2018.

² According to the survey and forecasts of major investment banks and international institutions (Thompson Reuters, Bloomberg, World Bank, IMF), the average price of Brent crude oil will account for 58.9 US dollars per barrel (55.8 US dollars per barrel during the previous forecast round) in 2018 and 61.5 US dollars per barrel in 2019.

close by the end of 2018. In 2019, the output gap will be positive until the end of the forecast period, which will have a weak pro-inflationary impact on prices in Kazakhstan.

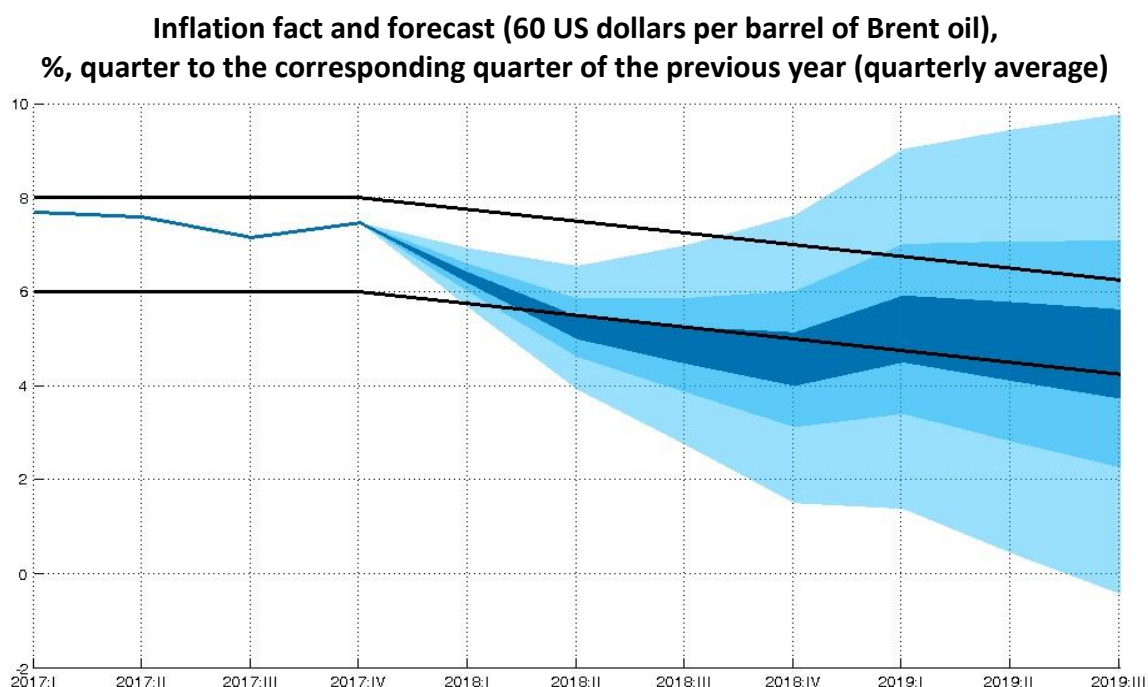
The structure of economic growth in the forecast period does not reflect the changes associated with the diversification of the economy, which contributes to the significant exposure to external shocks. Price of oil continues to be the main driver of the output gap.

In turn, with the implementation of the scenario of 50 US dollars per barrel, annual inflation will be within the target corridor in 2018-2019, which will not require an adjustment of monetary policy, and it will remain neutral throughout the forecast period.

The risk profile has not changed. Supply shocks and non-anchored inflation expectations are the main risks that are inherent in the inflation forecast.

Detailed information on the results of the forecast round "February-March 2018" will be published in the "Inflation Report" for Q4 2017 on the official website of the National Bank of Kazakhstan.

Figure 1



Source: Committee on Statistics of the MNE

Calculations: National Bank of the Republic of Kazakhstan

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