MODERN MONETARY POLICY OF THE NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

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MONETARY POLICY GUIDELINES OF THE REPUBLIC OF KAZAKHSTAN FOR 2016

The main objective of the National Bank of the Republic of Kazakhstan and its monetary policy pursuant to the Law of the Republic of Kazakhstan "On the National Bank of the Republic of Kazakhstan" dated March 30, 1995, is to ensure the price stability in the country.
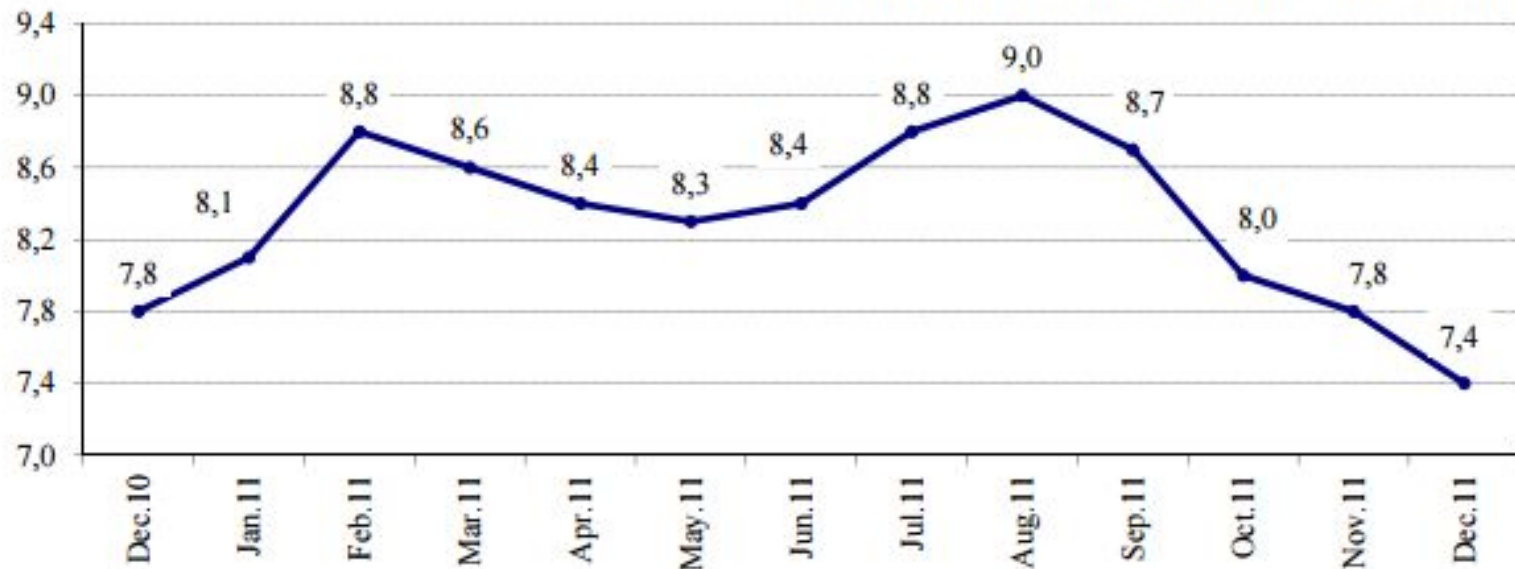
In August 2015 the National Bank adopted the inflation targeting regime as a monetary policy regime preferable for Kazakhstan and introduced free floating exchange rate regime for the domestic currency – the tenge.
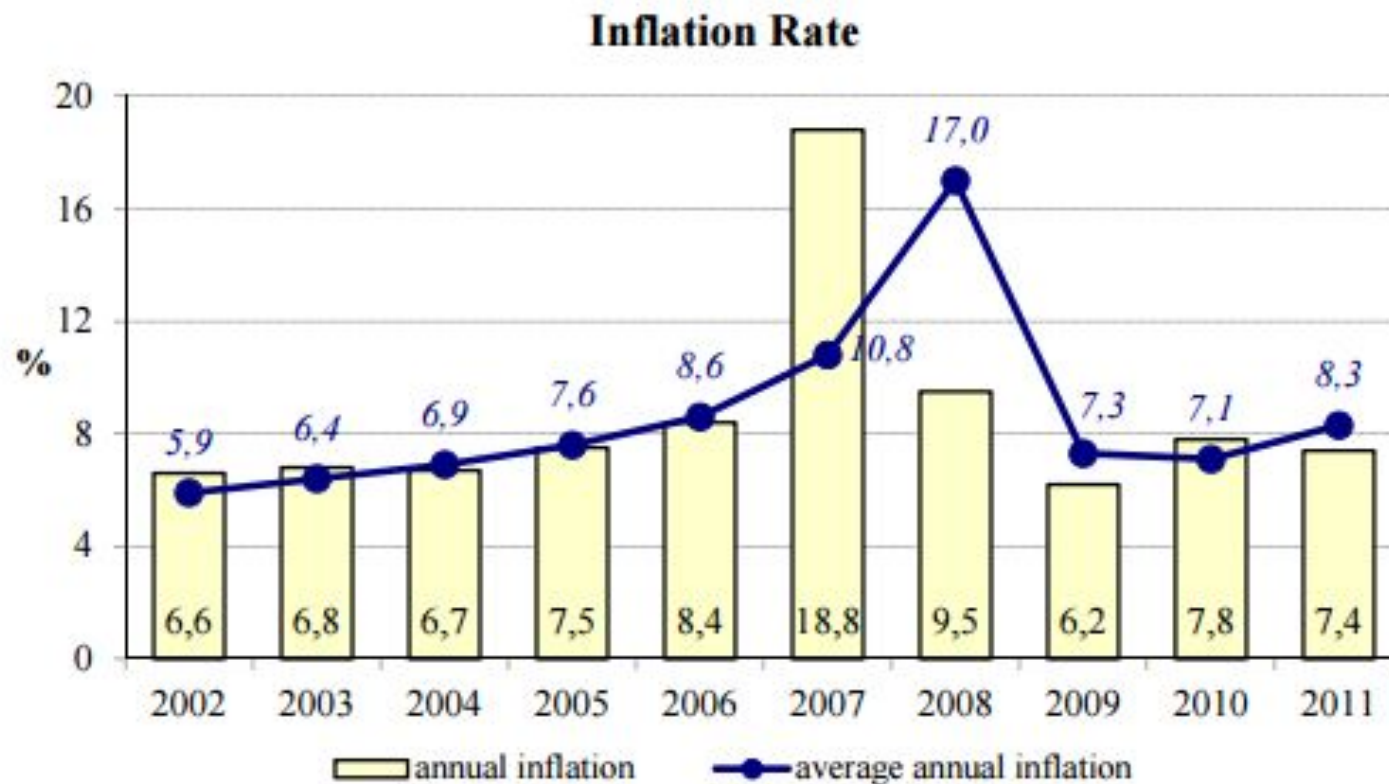
MONETARY POLICY GUIDELINES OF THE REPUBLIC OF KAZAKHSTAN
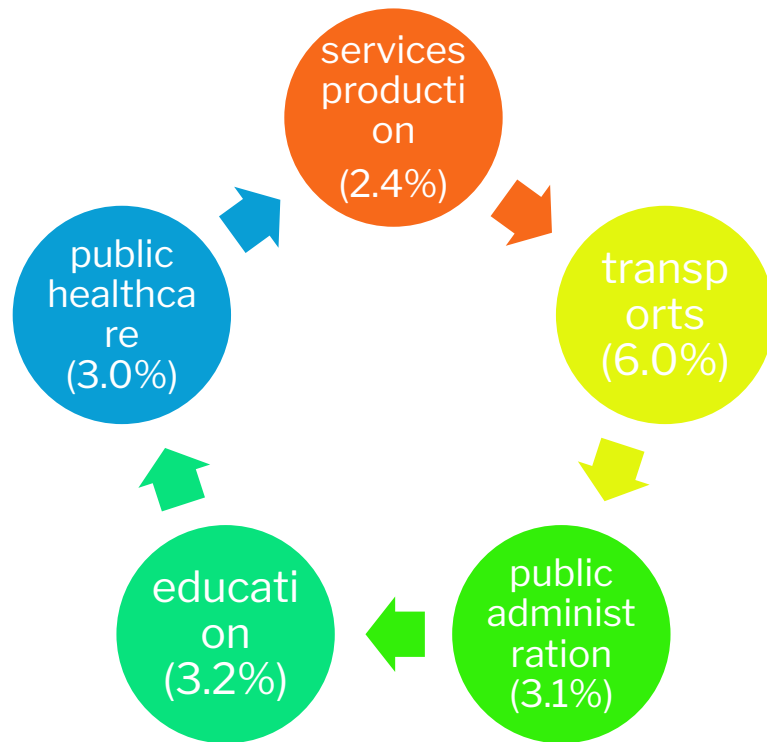
Annual Inflation Rate

as % of the respective month of the previous year

MONETARY POLICY GUIDELINES OF THE REPUBLIC OF KAZAKHSTAN

Inflation Rate

annual inflation
average annual inflation

MACROECONOMIC DEVELOPMENT AND THE MONETARY POLICY OF THE REPUBLIC OF KAZAKHSTAN IN 2015

services production (2.4%)

transports (6.0%)

public administration (3.1%)

education (3.2%)

public healthcare (3.0%)

Significant slowdown in the real GDP growth rate from 4.1% in 2014 to 1.2% in 2015 was a consequence of negative external impact on Kazakhstan's economy.

MACROECONOMIC DEVELOPMENT AND THE MONETARY POLICY OF THE REPUBLIC OF KAZAKHSTAN IN 2015

In September 2015, inflationary pressures in the economy increased. Major price growth occurred in October–December 2015, when inflation accounted for 10.4% (over 76% of the overall price growth during 2015). The main factor in dramatic inflation surge was a considerable depreciation of the tenge. Therefore, in 2015 the largest increase occurred in prices for non–food products – by 22.6%, whereas foodstuffs and paid services increased in terms of price by 10.9% and 8.1%, respectively.

GOALS AND OPERATING OBJECTIVES OF THE MONETARY POLICY FOR 2016

According to the statutory monetary policy goal to ensure the price stability in the Republic of Kazakhstan, the National Bank identifies stabilization of the inflation rate and its fastest reversion to the target band of 6-8% as its top-priority objective for 2016.

MONETARY POLICY INSTRUMENTS

System of Monetary Policy Instruments of the National Bank

Purpose	Type of Instrument	Instrument	Collateral	Frequency	Duration
Liquidity injection	Standing facilities	FX swap at the KASE	US Dollars	at banks' request	1 day
		Reverse repo at the KASE	Government securities	at banks' request	1 day
	Open market operations	NBK auction for the purchase of securities with the reverse sale	Lombard list	daily	7 days
Liquidity absorption		NBRK' notes auction	-	weekly	28 days
	Standing facilities	Direct repo at the KASE	Government securities	at banks' request	1 day
		deposits	Collateral-free	at banks' request	1, 7 days

MAIN OBJECTIVES IN THE AREA OF MONETARY POLICY FOR 2016

Implementation of the following objectives will help achieving the goals set by the National Bank, applying monetary policy instruments in an effective way, increasing the strength of the domestic currency as well as ensuring the country's financial sector stability in 2016:

- Managing expectations
- Supporting credits to the economy
- Stabilizing the bank funding base in the tenge
- Developing the interbank market

MANAGING EXPECTATIONS

The National Bank will be implementing active communication policy and a policy of transparency in respect of its actions, including with regard to the prospects of interest rate movements, by building a dialogue with the mass media, business community and the general public.

SUPPORTING CREDITS TO THE ECONOMY

The main objective for 2016 in supporting the credit market is to take measures that would not result in the credit market shrinkage but would allow disbursing new loans to enterprises and supporting the real sector.

STABILIZING THE BANK FUNDING BASE IN THE TENGE

The National Bank will be taking measures to create conditions for building the deposit base in the tenge. From February 1, 2016 maximum interest rates on new deposits in the tenge taken from individuals had been raised from 10% to 14%. Interest rates on foreign currency deposits had been lowered from 3% to 2%. The ways to further improve the deposits insurance system will be explored.

DEVELOPING THE INTERBANK MARKET

Given the fact that the National Bank will be covering the systemic liquidity gap with open market operations and interest rates on the standing facilities are penalty rates i.e. they exceed the level of existing market rates, the interbank market should play an important role in redistribution

Conclusion

In the phase of introducing inflation targeting, the National Bank will test the interest rate channel to determine the operational target. The communication strategy will be aimed at the formation and management of inflation expectations of economic agents.

The monetary policy until 2020 will be directed at implementing a set of measures for transition to the inflation targeting regime. This monetary policy regime will contribute to stable economic growth and support achievement of the country's strategic goal of joining the list of thirty most developed countries of the world.

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