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National Bank of Kazakhstan – a balanced response to economic shocks

The regulator has kept the base rate unchanged given inflation risks and the need to support the economy

On April 27, the National Bank of Kazakhstan (NBK) decided to keep the base rate unchanged at 9.5% annually with an interest corridor of plus or minus two percentage points.

The NBK's latest decision regarding the base rate was the third in a row since the beginning of March, when the economic crisis began to intensify. On March 10, the rate was raised to 12% and on April 3, the NBK Board lowered it to 9.5% at an emergency meeting.

Two main factors dictated the decision to lower the base rate in early April:

- Firstly, the NBK tried to support business activity in the country by lowering the rate. Because of the crisis, Kazakhstan's economy has experienced a double shock due to the sharp drop in oil prices on world markets as well as restrictions on economic activity due to quarantine measures.
- Secondly, the regulator found it necessary to synchronize its actions with fiscal authorities, which adopted an unprecedented anti-crisis fiscal package in the amount of KZT 4.4 tln (6.4% of GDP).

ACRA notes that on April 3, the rate was lowered despite significant inflationary dynamics. In March 2020, the inflation rate in Kazakhstan went beyond the established corridor.

The decision to keep the key rate unchanged indicates that the regulator is trying to find a balance between supporting economic activity in the country and containing the expected increase in inflation caused by the weakening of the tenge and increasing financial stress in the system.

According to ACRA, an increase in the base rate in the context of an expected economic downturn could run counter to the actions of the government, which is trying to improve the situation in the real sector and support aggregate demand. However, lowering the rate might be premature given the uncertainty of possible inflationary dynamics after the quarantine ends.

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