

As expected, NBS kept key rate at 3%

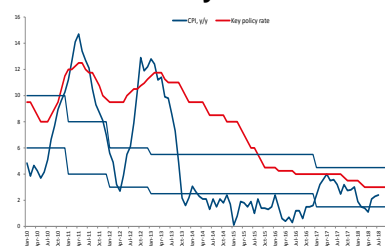
NBS kept key rate unchanged at 3%. Support for decision came from strong growth trajectory, stable CPI trajectory, gradually rising inflation expectations and favorable developments in banking sector. NBS likely to keep key rate at current level throughout 2018 and most of 2019, as all above-mentioned factors should persist in upcoming months. In addition, expected ECB and Fed moves also play important roles.

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Inflation and key rate



Source: NBS

At the November meeting, the NBS Executive Board kept the key rate unchanged at 3%. The decision was broadly expected after 3Q18 GDP growth of 3.7% y/y showed continuation of positive economic developments and NBS projections show that inflation will remain stable and move inside the target band for the prolonged period of time. According to the NBS, one-year and two-year ahead inflation expectations for both financial and corporate sectors are anchored around 3%. Dynamics in the banking sector are also supportive for such a decision, with falling interest rates and rising credit activity.

Looking forward, we expect the NBS to keep the key rate at the current level throughout the year and most of 2019 as we also expect gradual and steady rise of inflation and a continuation of solid economic trends (growth forecast revised from 3.5% to 4.3% y/y y/y). We expect more hawkish stance from the NBS after the ECB moves expected after summer of 2019.

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