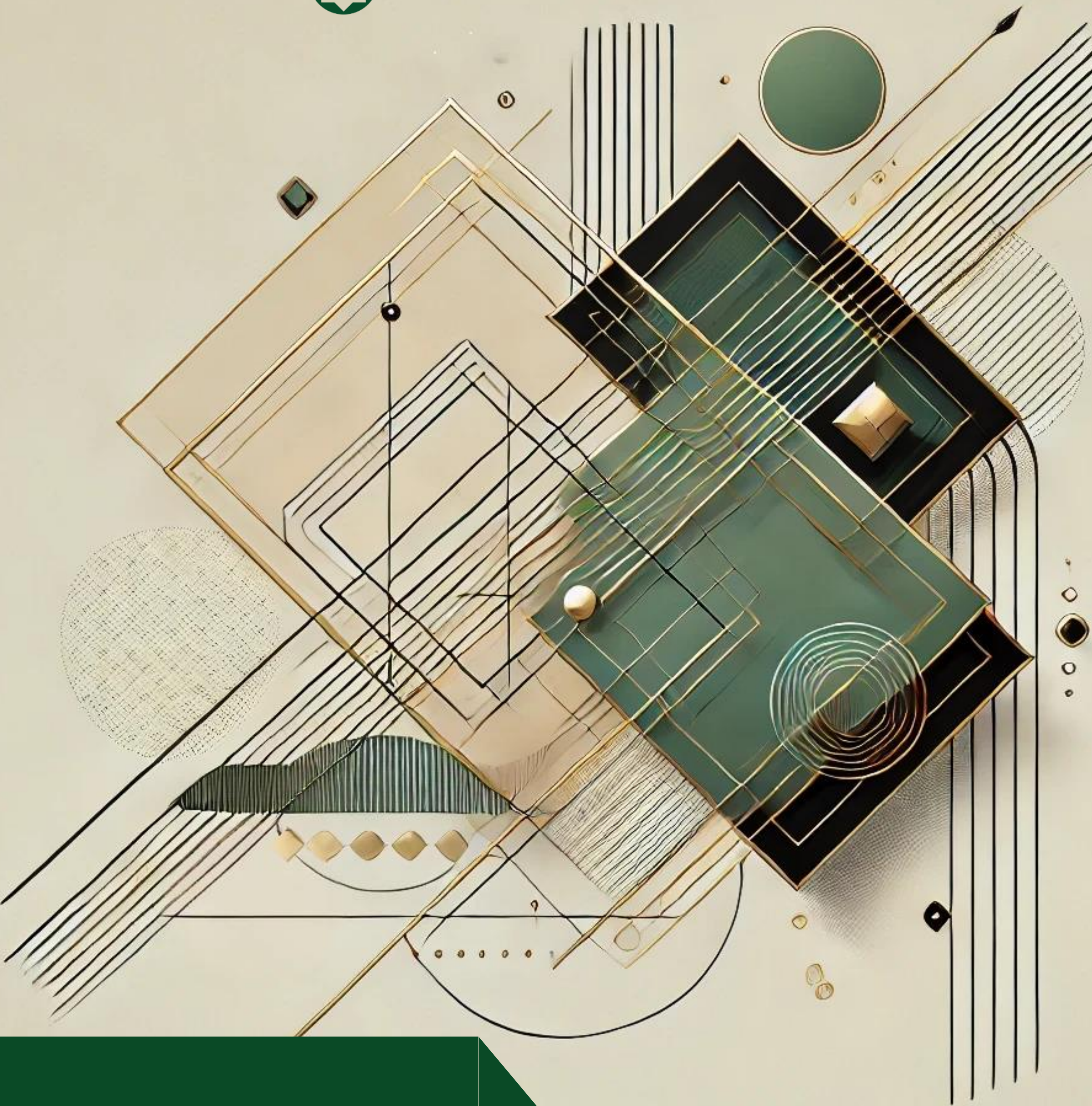
NATIONAL BANK OF KAZAKHSTAN



INFLATION TRENDS

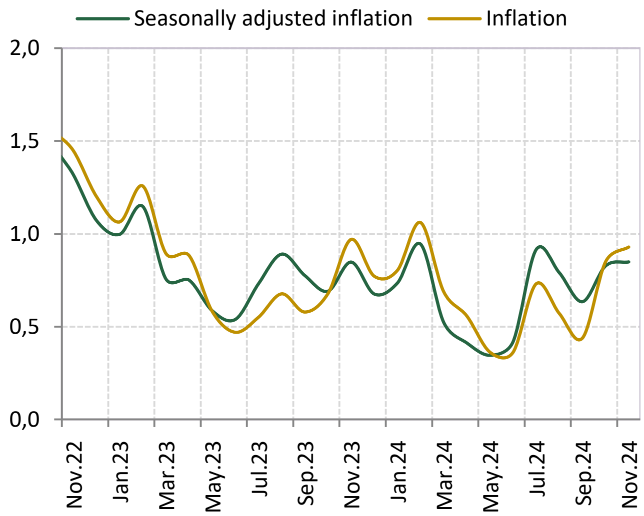
November 2024

The annual inflation rate slowed to 8.4% in November 2024. The year-on-year growth rate of food prices accelerated, driven by a significant monthly increase in the prices of vegetables and vegetable oils. Annual non-food inflation also accelerated, supported by steady consumer demand and rising import prices due to the depreciation of the nominal exchange rate of the tenge. Meanwhile, year-on-year service inflation slowed down, reflecting a decline in the growth rate of tariffs for regulated housing and utility services.

In November 2024, the annual inflation decreased to 8.4% (October 2024 – 8.5%). Monthly price growth remained consistent with the previous month at 0.9%. For comparison, the average historical increase for November during the 2017-2021 period was 0.8%.

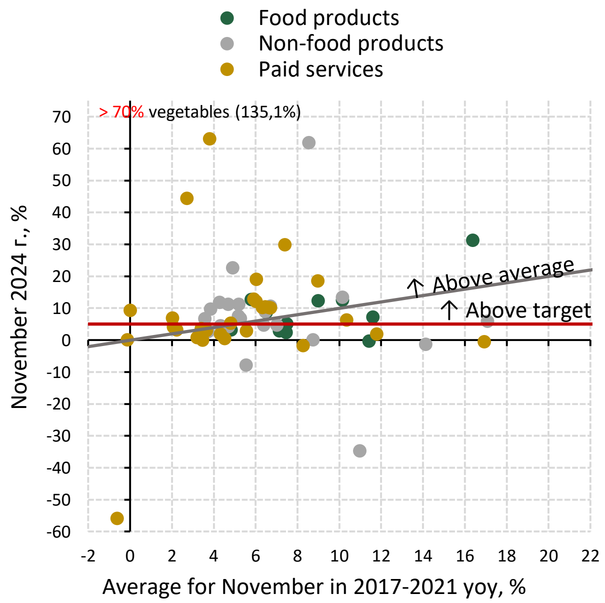
The seasonally adjusted inflation rate in monthly terms slightly accelerated to 0.85% (0.83%) (Graph 1).

Graph 1. Inflation indicators, m/m, %



Source: BNS ASPR RK, calculations of the NB RK

Graph 2. Seasonally adjusted price growth for various CPI groups, m/m, annualized, %



Source: BNS ASPR RK, calculations of the NB RK

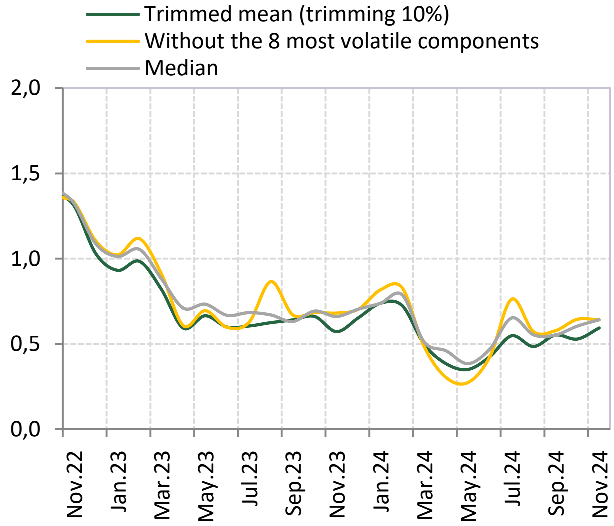
In the structure of seasonally adjusted inflation, there is an acceleration in the food component. After seasonal adjustment, the highest monthly price growth was recorded for vegetables, as well as oils and fats.

At the same time, there is a slowdown in the growth rate of the service component of inflation, due to a reduced contribution from regulated housing and utility services. This is related to the reduction in water supply tariffs.

Simultaneously, an increase in prices for non-food products such as pharmaceuticals and medical equipment, automobiles, footwear, and clothing is observed.

In November 2024, the median estimate of seasonally adjusted core inflation, calculated using various methods[1], continued to accelerate, reaching 0.64% on a monthly basis and 8% on an annualized basis. The second consecutive month of acceleration in this indicator reflects rising prices in the stable components of inflation and sustained significant inflationary pressure (Graph 3).

Graph 3. Core inflation: various calculation methods, m/m, %

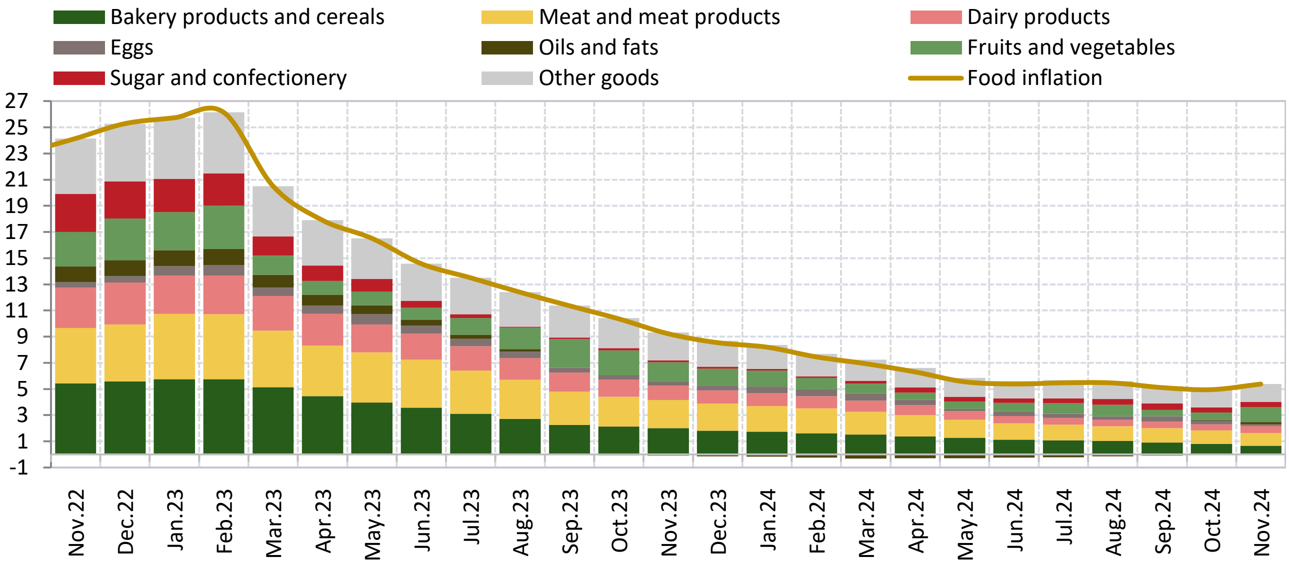


Source: BNS ASPR RK, calculations of the NB RK

Food inflation

In November 2024, the annual growth rate of food prices accelerated to 5.4%. The main drivers of inflationary pressure were the increased annual growth rates for vegetables, fruits, oils and fats, sugar, and confectionery products. Conversely, bakery products and cereals, dairy products, and meat were the primary factors exerting a disinflationary effect (Graph 4).

Graph 4. Contribution of goods to annual food inflation, %



Source: BNS ASPR RK, calculations of the NB RK

In November 2024, the monthly price growth for food products accelerated to 1.1% (October 2024 – 0.4%). The primary contributors to monthly food inflation were price increases for

[1] Core inflation is a value that characterizes a steady change in prices. The truncated average is calculated by excluding from the calculation 10% of the smallest and 10% of the largest seasonally adjusted price changes in a given month; core inflation without the 8 most volatile components excludes from the inflation calculation 8 components whose standard deviation of seasonally adjusted price changes over the past 2 years is the maximum; the median of core inflation is calculated by finding the median in each of the groups of methods for estimating core inflation. The final estimate is also the median of the considered groups of estimation methods, and the maximum and minimum values are the range of values of core inflation. The National Bank of Kazakhstan makes estimates of core inflation through a variety of methods. Methodology is described in the Working Paper "Various estimates of core inflation for Kazakhstan" published on the official internet-resource of the National Bank.

vegetables, fruits, and oils and fats. At the same time, declining prices for sugar and confectionery products, bakery products, and cereal exerted a downward effect on food inflation dynamics.

One of the key factors driving the upward pressure on monthly food inflation was the increase in vegetable prices, which reached 13.3% in November 2024 (October 2024 – 0.7%). Significant price increases were observed for cucumbers (+40.3%), tomatoes (+37.3%), peppers (+15.5%), onions (+13.9%), and cabbage (+8.9%). This growth is largely attributed to the seasonal rise in vegetable prices during this period.

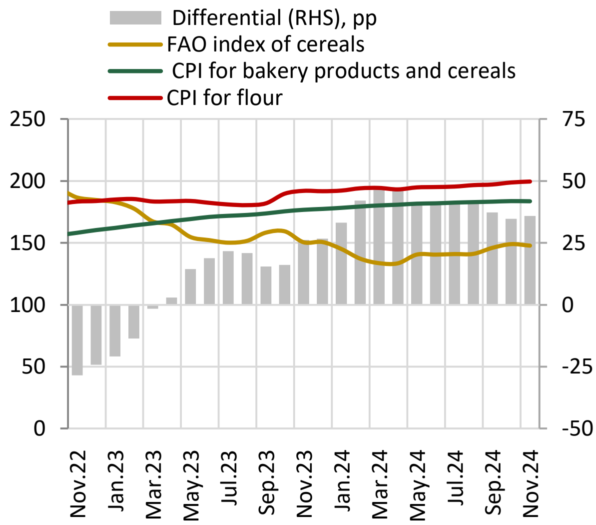
Additional upward pressure on food inflation came from the continued increase in prices for oils and fats, which grew by 2.4% in November 2024. Specifically, sunflower oil prices rose by 4%, and butter prices increased by 1.8%. These price hikes were driven by rising production costs and higher global prices for sunflower and butter, contributing to inflationary pressures.

Conversely, products exerting a downward influence on monthly food inflation included rice and sugar. In November 2024, rice prices declined by 2%, driven by lower producer prices and a drop in global prices. Consumer sugar prices decreased by 1.9%, marking the sixth consecutive month of decline. This trend reflects falling sugar producer prices. However, given that domestic sugar production accounts for only 34% of total consumption (data for January-September 2024), with the remainder covered by imports, the recent rise in global sugar prices may contribute to future cost increases.

Internal and external food prices

In November 2024, the price of vegetable oils continued to rise on the world market with lower prices for cereals and sugar. The trend of domestic prices exceeding external prices continued for all types of food, with the exception of vegetable oils.

Graph 5. Cereals, bakery products and cereals, flour, 2019 Dec. = 100



Source: BNS ASPR, UN FAO, calculations of the NB RK[2]

In November 2024, world grain prices decreased by 2.7% on a monthly basis (in US dollars) (decrease by 8% YoY), mainly due to falling rice prices. The decline in rice prices is due to increased competition, new crops and exchange rates depreciation against the US dollar.

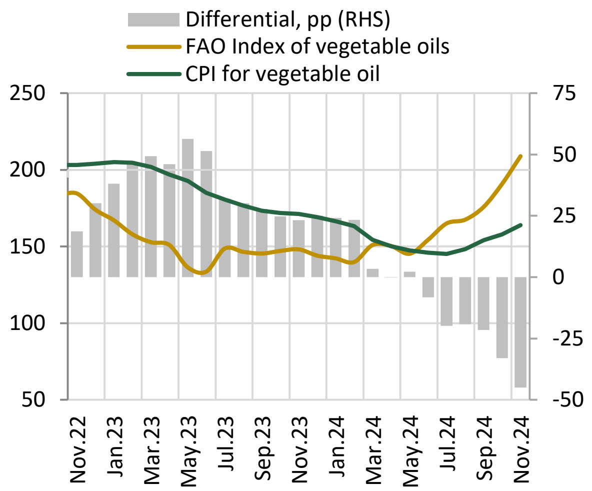
The decline in world grain prices, along with the weakening of the tenge in November 2024, led to an expansion of the price differential between domestic prices for a group of bakery products and cereals and external prices expressed in tenge (Graph 5).

[2] Here and in the following graphs 6,7,8 calculations are made using the average monthly exchange rate of tenge to the US dollar

In November 2024, world prices for vegetable oils rose by 7.5% compared to the previous month (in US dollars) (growth of 32.2% YoY). Global vegetable oil prices have peaked since July 2022. Prices for all types of oils, including rapeseed and sunflower, have increased due to a reduction in supply.

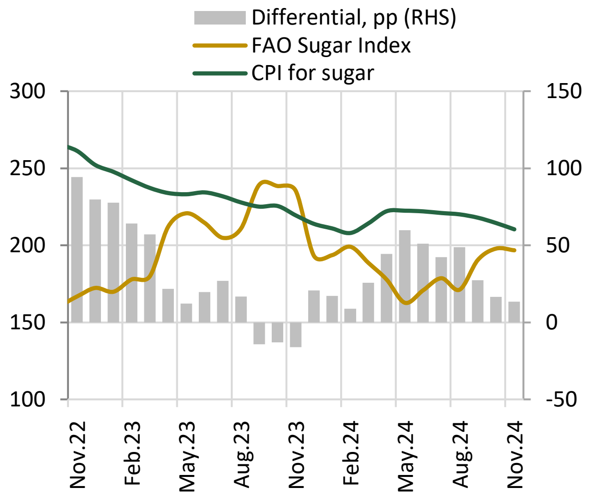
The growth of world oil prices continues to significantly exceed the growth rate of domestic prices. This led to an increase in the price differential between external and internal prices. Along with this, the weakening of the tenge in November 2024 contributed to the expansion of the price differential for oils (Graph 6).

Graph 6. Vegetable oils, 2019 Dec. = 100



Source: BNS ASPR, UN FAO, calculations of the NB RK

Graph 7. Sugar, 2019 Dec. = 100



Source: BNS ASPR, UN FAO, calculations of the NB RK

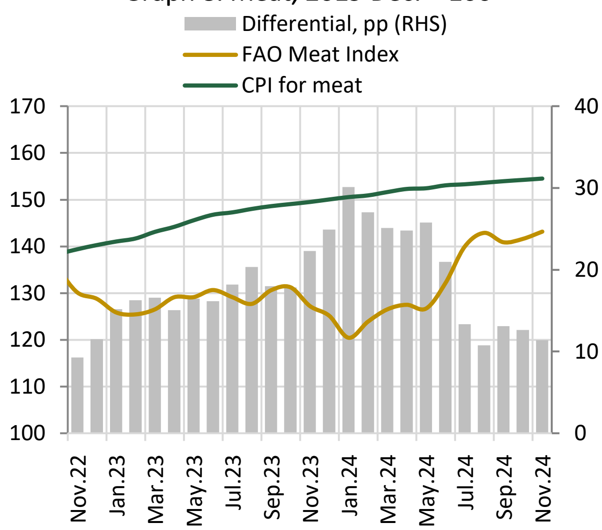
World sugar prices in November 2024 decreased by 2.4% compared to the previous month (in US dollars) (decrease by 21.7% YoY). The decrease in prices is due to an increase in supply and a decrease in concerns about the harvest in Brazil.

World sugar prices expressed in tenge decreased to a lesser extent in November 2024 due to the weakening of the tenge. With the slowdown in the growth of sugar prices within the country, the discrepancy between domestic and foreign prices decreased (Graph 7).

World meat prices decreased by 0.8% compared to the previous month (in US dollars), but remain higher than last year (an increase of 5.9% YoY). The decrease in prices is due to a drop in the cost of pork, lamb and poultry meat.

The weakening of the tenge against the US dollar in November 2024, coupled with lower prices on the world market and a slight increase in domestic consumer prices for meat, led to a reduction in the price differential between domestic and foreign meat prices (Graph 8).

Graph 8. Meat, 2019 Dec. = 100

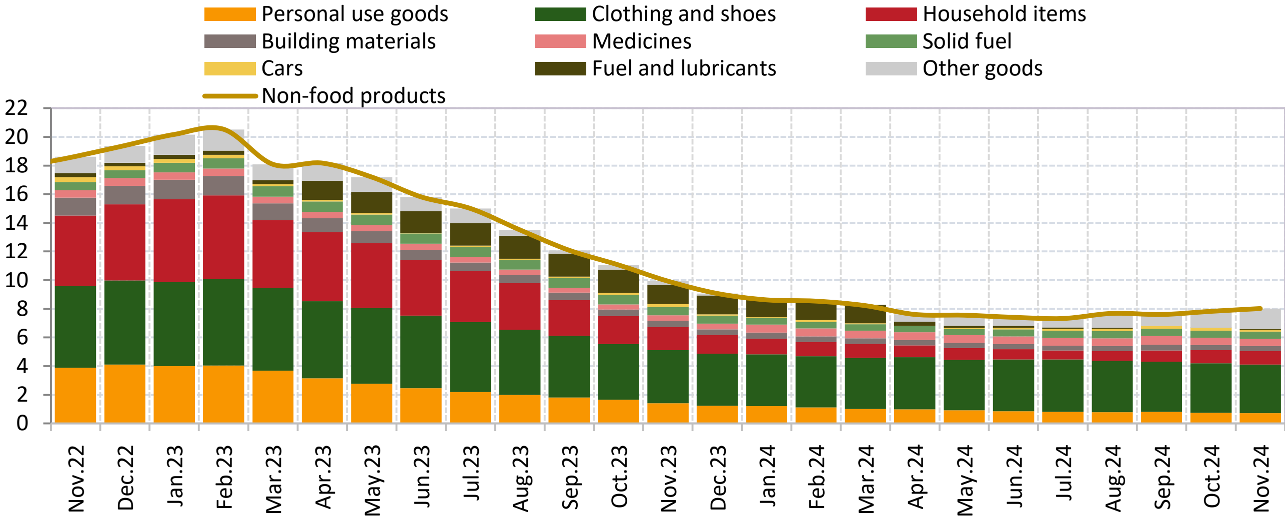


Source: BNS ASPR, UN FAO, calculations of the NB RK

Non-food inflation

In November 2024, the annual price growth for non-food products accelerated to 8% (October 2024 – 7.8%). Within the product categories, there was an acceleration in the annual price growth of pharmaceuticals, jewelry and watches, and household chemicals. At the same time, there was disinflation in prices for clothing and footwear, building materials, automobiles, and audiovisual equipment. Annual deflation was observed in prices for glassware, tableware, household items, and personal electrical appliances (Graph 9).

Graph 9. Contribution of goods to annual non-food inflation, %



Source: BNS ASPR RK, calculations of the NB RK

In November 2024, the monthly price growth for non-food products slowed to 0.7% (October 2024 – 1%). The slowdown in price growth was observed in categories such as audiovisual equipment, cameras, and information processing equipment – decreasing from 7.8% in October to 0.2% in November; footwear – declining from 1.3% to 0.9%; solid fuel – dropping from 2% to 1.1%; and building materials – decreasing from 0.4% to 0.2%. Additionally, there was a 3.5% decrease in prices for glassware, tableware, and household items, as well as a 0.7% drop in prices for household appliances.

At the same time, prices for certain products rose, including smartphones (+9.8%), jewelry and watches (+6%), medical equipment and devices (+5%), photo and film equipment (+3.4%), and domestic passenger cars (+2.5%), contributing noticeable inflationary pressure. The price increases for these goods are linked to ongoing price adjustments to the depreciation of the nominal exchange rate of the tenge.

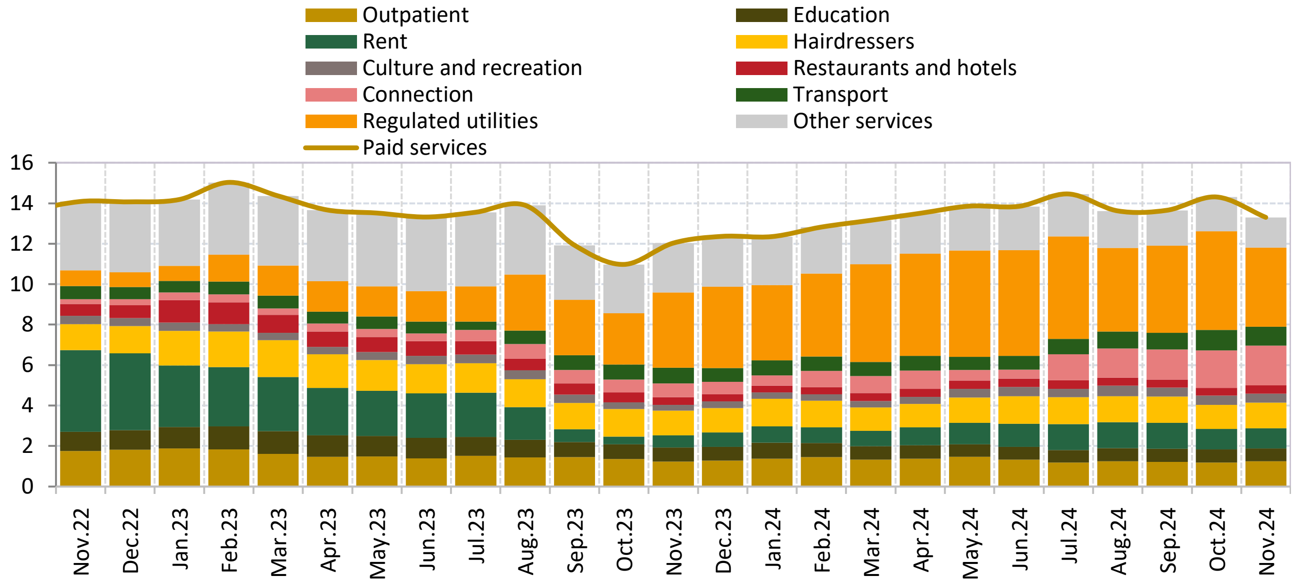
Service inflation

In November 2024, the annual price growth for services slowed to 13.3% (October 2024 – 14.3%). The primary factor behind the slowdown was the reduced growth rate of tariffs for regulated utility services, which decreased from 27% in October to 21.6% in November.

On a monthly basis, the price growth also slowed, reaching 0.8% compared to 1.4% in October 2024. Among market services, there was a deceleration in monthly price increases for transportation services from 2.5% in October to 0% in November, communication services – from 2.8% to 0.4%, and insurance – from 2.4% to 0.7%. Hospital service prices decreased by 0.1% in November 2024.

At the same time, prices for certain service categories rose, with comprehensive recreation services increasing by 3.5%, hairdressing services by 1.4%, outpatient services by 1%, and rental housing by 0.8%.

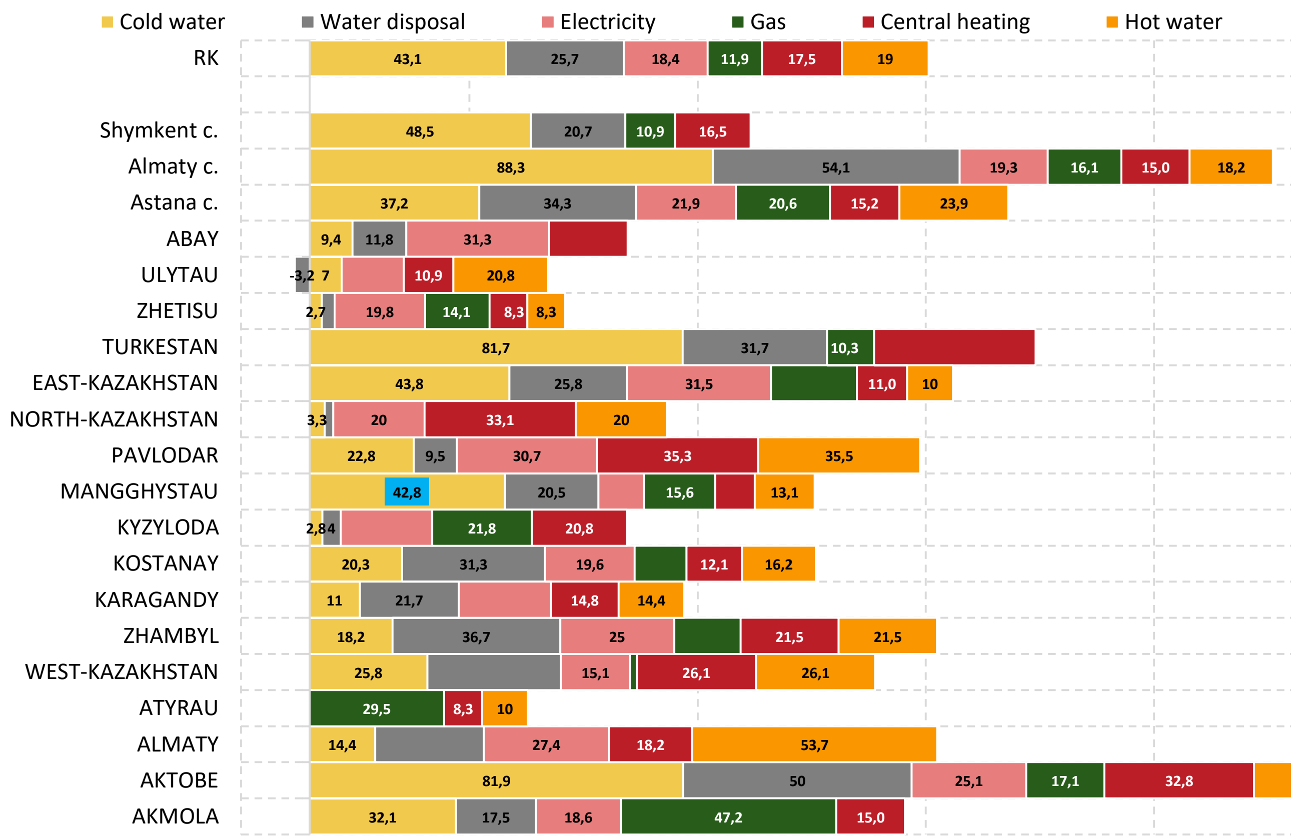
Graph 10. Contribution of services to the annual inflation of paid services, %



Source: BNS ASPR RK, calculations of the NB RK

In November 2024, the monthly growth rate of tariffs for regulated housing and utility services slowed to 1.7% (October 2024 – 3.4%). During November 2024, tariffs for hot water increased by 11.4%, electricity by 3.4%, central heating by 2.1%, and gas by 0.1% (Graph 11). Tariffs for cold water, however, decreased by 6.3% in November 2024, following a 25% increase in the previous month.

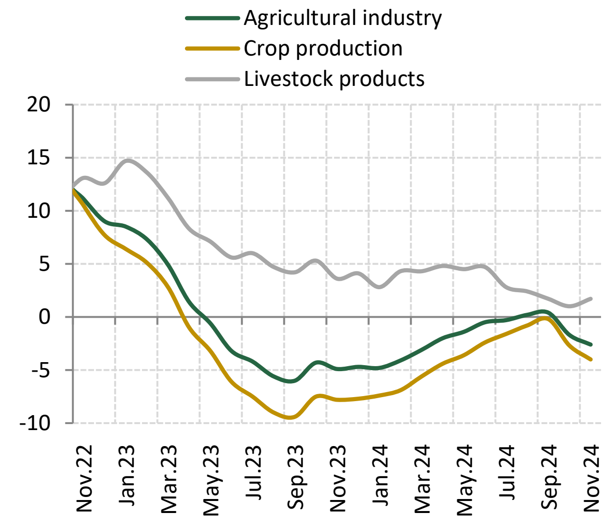
Graph 11. Growth of prices for regulated housing and communal services by region, Jan-Nov 2024, %



Source: BNS ASPR RK, calculations of the NB RK

In November 2024, agricultural producer prices decreased due to the cheaper cost of certain types of grain crops. Food price growth remains moderate. Import prices continued to rise. In the services sector, tariffs for freight transportation by rail and air continued to increase.

Graph 12. Prices in agriculture, %, y/y



Source: BNS ASPR RK

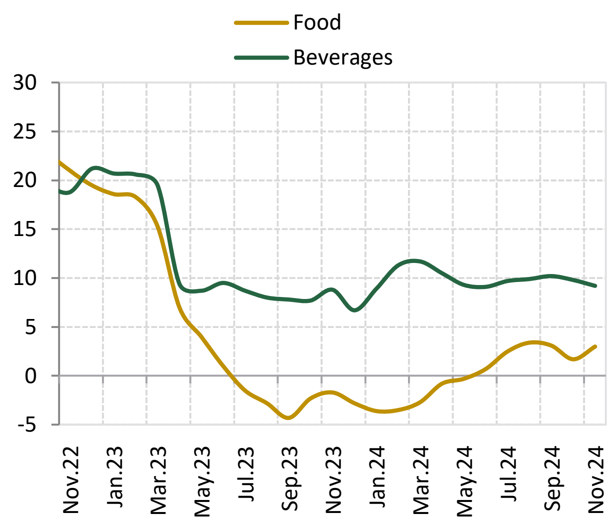
In November of this year, livestock products became 1.7% more expensive in annual terms. This is due to a slowdown in the decline in poultry prices and an increase in livestock costs. Despite the lower prices of feed crops, production costs remained high due to increased prices for imported vitamins, vaccines, and equipment.

The reduction in producer prices for crop products continued as a result of lower wheat prices. This was facilitated by an increase in grain reserves amid high yields this year.

The slowdown in producer price growth for bakery, pasta, and flour products was due to the decline in wheat prices. However, for the first time since March 2023, an increase in production costs for oils and fats was noted, associated with a prolonged slowdown in the decline of oilseed prices. The rise in beverage producer prices continued against the backdrop of higher prices for imported glass and plastic liquid storage containers.

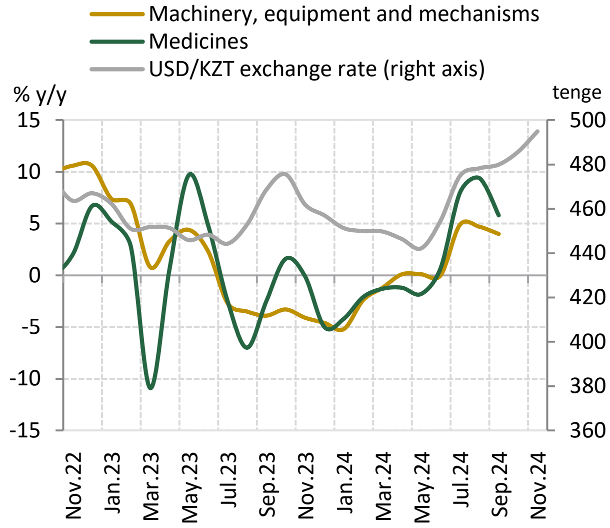
Increased tariffs for electricity and water supply continue to drive up production costs in the food sector.

Graph 13. Producer prices for food products, %, y/y



Source: BNS ASPR RK

Graph 14. Import prices for consumer goods and the nominal exchange rate of the US dollar to tenge

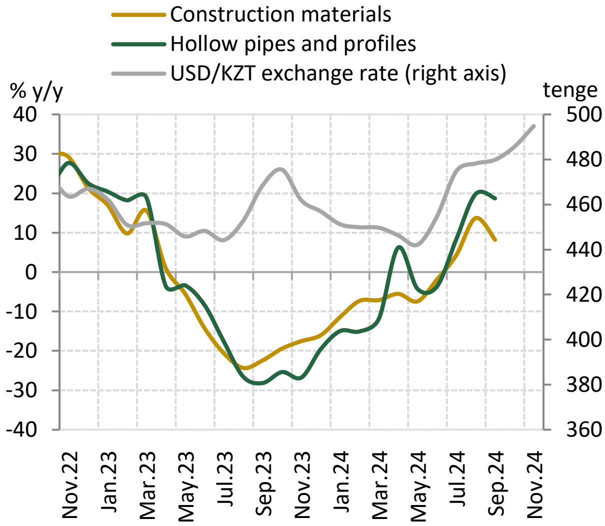


Source: BNS ASPR RK

The weakening of the tenge, observed since mid-2024, has contributed to the acceleration of import price growth. In September of this year, there was an increase in the cost of goods such as household appliances (phones, televisions, vacuum cleaners, refrigerators, printers, etc.) as well as pharmaceuticals, whose share in domestic consumption significantly exceeds local production. The increase in the cost of imported equipment may lead to higher production costs and more expensive finished products (Graph 14).

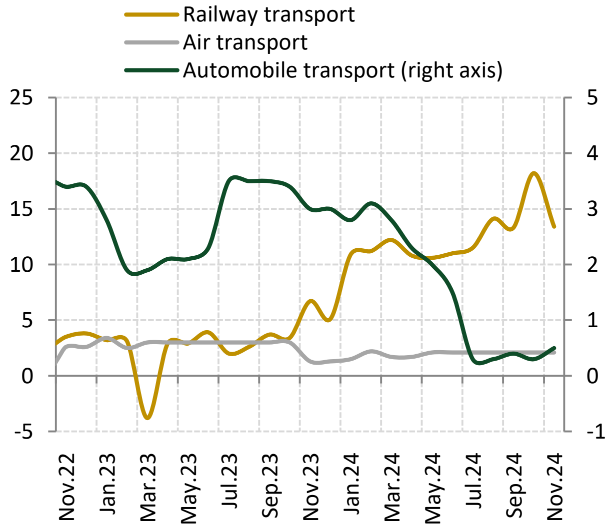
Among intermediate goods, construction materials have become more expensive, particularly stone, gypsum, cement products, ceramics, glass, and glass products (Graph 15). In January-September of this year, the share of imports for clay bricks and tiles, as well as gypsum, was 36.1% and 32.6%, respectively. Imported products also account for 47.3% of construction glass and 76.2% of ceramic tiles. The significant share of imported goods increases the sector's vulnerability to price changes, potentially leading to higher costs in the construction industry.

Graph 15. Import prices for intermediate goods and the nominal exchange rate of the US dollar to tenge



Source: BNS ASPR RK

Graph 16. Tariffs for cargo transportation, %, y/y



Source: BNS ASPR RK

The increase in rail freight tariffs slowed to 13.4% y/y in November 2024 (compared to 18.2% y/y in October) due to a higher base from the previous year. Key growth factors included fleet renewal and higher wages for workers.

The cost of air freight transportation remained unchanged, while road transportation tariffs rose by 0.5% y/y (Graph 16).