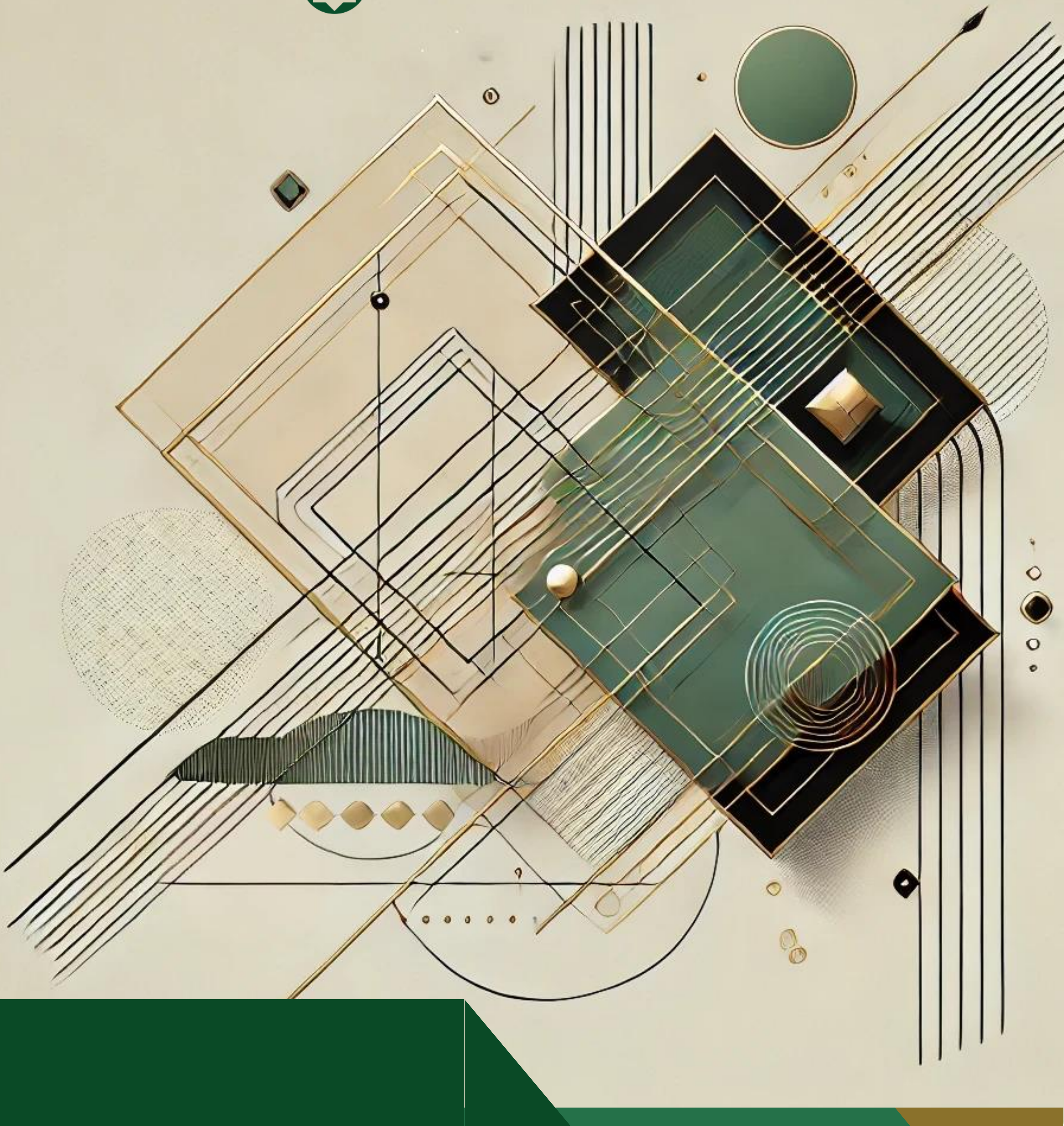
NATIONAL BANK OF KAZAKHSTAN



INFLATION TRENDS

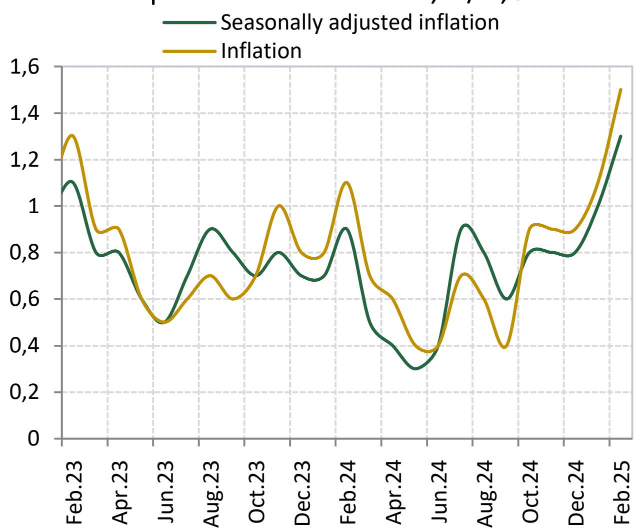
February 2025

In February 2025, the annual inflation rate accelerated significantly, reaching 9.4%. An upward trend in price growth is apparent across all inflation components. Prices for a broad range of food products have risen, driven by increasing producer prices and a decline in the production of certain goods. Non-food inflation accelerated, primarily due to persistent consumer demand and ongoing price adjustments in response to the depreciation of the nominal exchange rate in late 2024. Additionally, service inflation accelerated on an annual basis, largely due to a substantial increase in the cost of regulated housing and utility services, as well as the rising prices of certain market-based services.

In February 2025, the annual inflation rate accelerated to 9.4% (January 2025 – 8.9%). The monthly rate of price growth also accelerated and amounted to 1.5%.

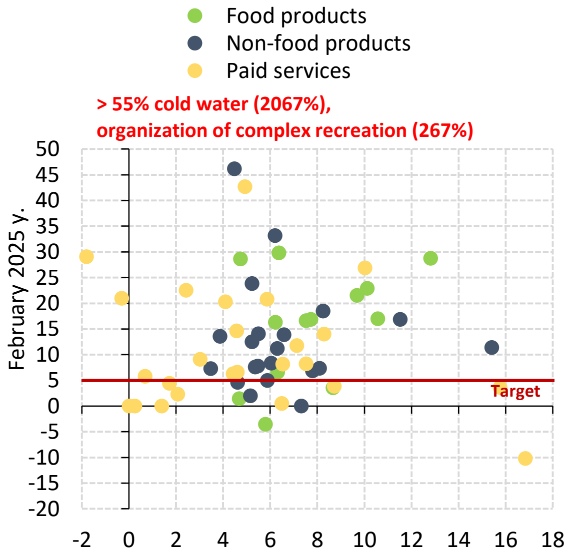
The seasonally adjusted inflation rate in monthly terms accelerated to 1.3% (January 2025 – 1%), and in annualized terms – to 16.9% (12.8%) (Graph 1).

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

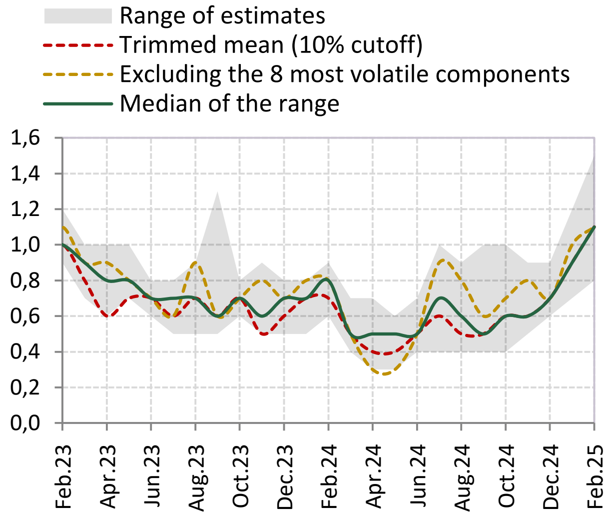
In the structure of seasonally adjusted inflation, the food component accelerated to 1.2%, the non-food component to 1%, and the services component to 1.9%.

Accounting for seasonal adjustment, significant price increases were recorded for meat, coffee, tea and cocoa, fish and seafood, oils and fats, sugar, jam, honey, chocolate and confectionery, personal electrical appliances, tools and devices used in everyday life and gardening, audiovisual equipment, housing and communal services, organization of complex recreation, and hospital services (Graph 2).

In February 2025, the median estimate of seasonally adjusted core inflation, calculated using various methods[1], continued to accelerate, reaching 1.1% in monthly terms and 14.2% in annualized terms. This indicator's trend towards acceleration has been observed since October 2024.

In addition, the lower and upper bounds of the range of core inflation estimates continued to rise, indicating growing pro-inflationary pressures across a wide range of goods and services (Graph 3).

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

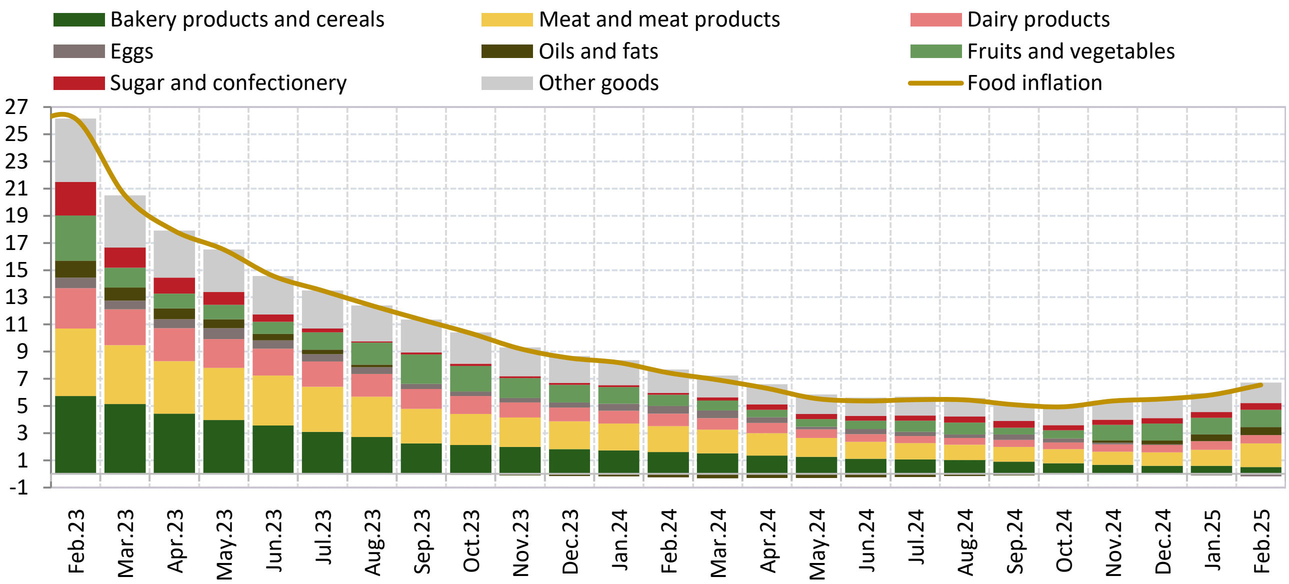


Source: BNS ASPR RK, calculations of the NB RK

Food inflation

In February 2025, the annual growth rate of food prices accelerated to 6.5% (January 2024 – 5.8%). The most notable price increases were observed for meat, vegetables, oils and fats, as well as sugar, jam, honey, chocolate and confectionery. At the same time, the slowdown in the annual growth rate of prices for bakery products, cereals, dairy products, as well as the annual deflation of eggs had a disinflationary effect (Graph 4).

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



Source: BNS ASPR RK, calculations of the NB RK

[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.

In February 2025, the monthly growth in food prices was 1.5% (January 2025 - 1.4%). The acceleration of food inflation is due to a significant increase in prices in certain product groups, such as meat, vegetables, oils and fats, coffee, tea and cocoa. In addition, most food products have become more expensive.

In February 2025, meat prices increased by 2.1% (January 2025 - 1.1%) and made the largest contribution to food inflation due to the significant weight of this category in the consumer basket. A significant increase in prices for beef by 3.7% (1.8%) and lamb by 2.3% (0.6%) was due to an increase in prices of agricultural producers. According to the BNS ASPR, the volume of beef and lamb sales on the domestic market in 2024 was lower compared to 2023.

Despite the slowdown compared to previous months, the price growth for vegetables continues to make a significant contribution to monthly food inflation. Thus, in February 2025, vegetable prices increased by 5.6% (January 2025 - 6.1%). In particular, an increase in prices was recorded for cucumbers, white cabbage, tomatoes, and cauliflower. It is worth noting that the increase in vegetable prices is due to the seasonal factor. Taking into account the exclusion of seasonality, monthly deflation of vegetables is observed in February 2025.

Additional pressure on monthly food inflation continues to be exerted by rising prices for oils and fats, which increased in price by 1.2% in February 2025 (3.5% in January 2025). In particular, the price of sunflower oil continues to rise significantly – by 3% (3.9%). The main reason for the rise in the price of vegetable oil was the rise in producer prices in the manufacturing industry against the backdrop of rising prices for sunflower seeds.

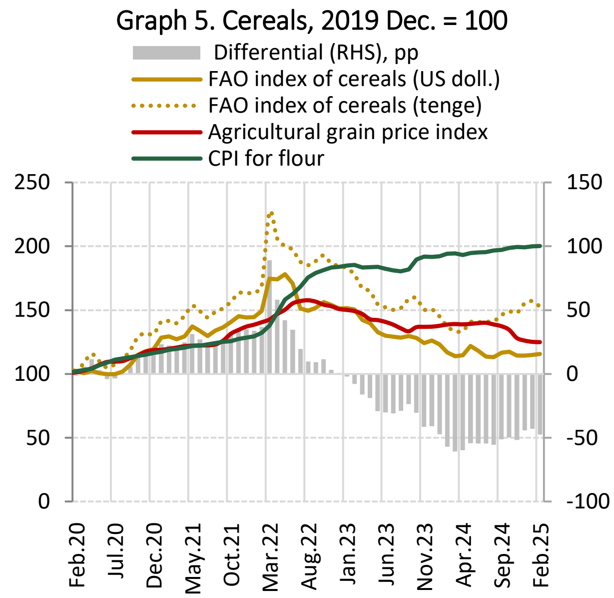
Coffee, tea and cocoa prices also showed growth in February 2025 (2.1%). In the structure of this category, it is worth noting the increase in cocoa prices (4.5%) in the context of high world prices for cocoa beans. High prices for imported raw materials led to a significant increase in prices for cocoa and chocolate producers in the manufacturing industry. The increase in raw material prices also led to an increase in chocolate prices (4.5%).

Internal and external food prices

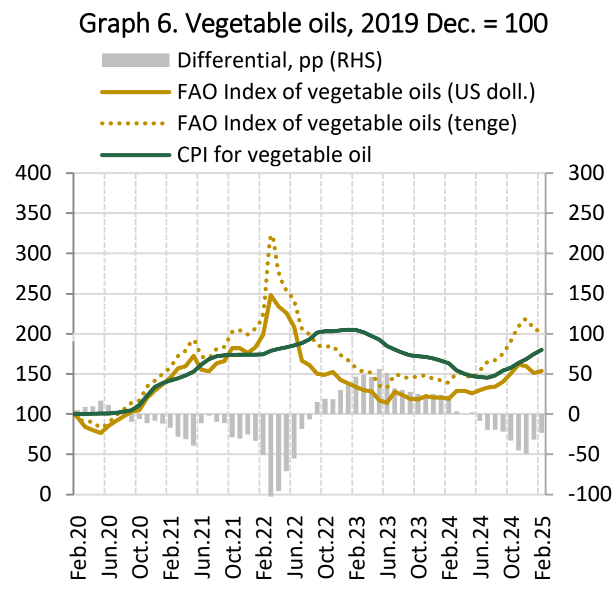
The FAO food price index increased by 1.6% mom in February 2025, with annual price growth accelerating to 8.2%. Prices for all types of food, except meat, have increased. At the same time, there was a convergence of global and domestic prices for vegetable oils and sugar. The expansion of the price differential was recorded for cereals and meat.

In February 2025, global grain prices (in US dollars) increased slightly (by 0.7%) due to higher prices for wheat and corn. In annual terms, global grain prices decreased by 1.1%. The price differential between external grain prices expressed in tenge and domestic flour prices increased slightly, due to the strengthening of the nominal exchange rate of tenge. In general, there is a high correlation between the dynamics of world grain prices and the prices of domestic agricultural producers for cereals. At the same time, the discrepancy in the dynamics of consumer prices for flour and external and internal prices for cereals, observed since mid-2022, may be explained by higher production costs (Graph 5).

In February 2025, global prices for vegetable oils increased by 2% compared to the previous month (in US dollars). In annual terms, the price increase continued and amounted to 29.1%. Quotations for all types of oils have increased. In February 2025, the price differential for oils decreased against the background of rising domestic prices and lower world prices for oils denominated in tenge, as a result of the strengthening of the nominal exchange rate of tenge (Graph 6).



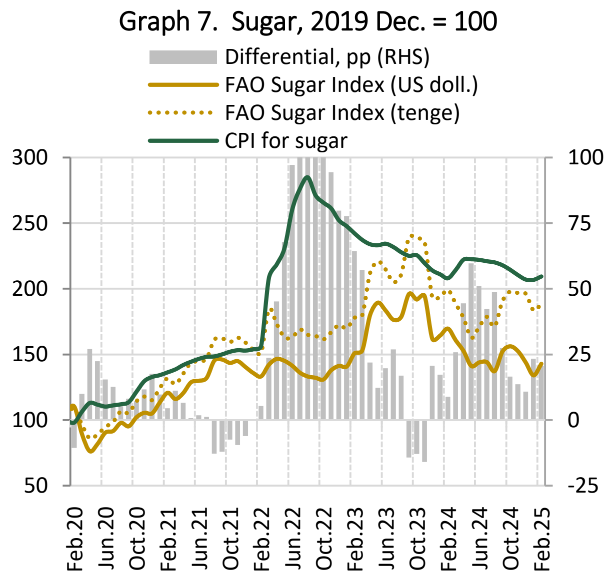
Source: BNS ASPR, UN FAO, calculations of the NB RK [2]



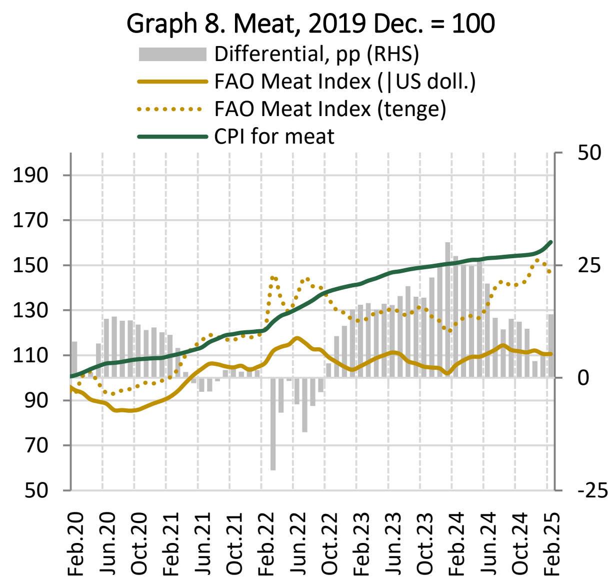
Source: BNS ASPR, UN FAO, calculations of the NB RK

Global sugar prices in February 2025 increased by 6.6% compared to the previous month (in US dollars) after three consecutive months of decline. The price increase is due to concerns about lower supply in Brazil and India. In annual terms, the decline in sugar prices continued (by 15.8% YoY). A significant increase in prices on the world market was offset by the strengthening of the tenge, while domestic sugar prices rose, which led to a decrease in the price differential (Graph 7).

Global meat prices decreased by 0.1% compared to the previous month (in US dollars), but remain higher than last year (an increase of 4.8% YoY). This was due to lower prices for poultry and pork. At the same time, beef prices continued to rise against the background of persistently high demand (Graph 8).



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



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

In February 2025, the price differential between domestic and foreign meat prices, expressed in tenge, continued to expand. This was facilitated by the multidirectional dynamics of meat prices in

[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. The differential is calculated between world food prices expressed in tenge and consumer prices for the corresponding food product.

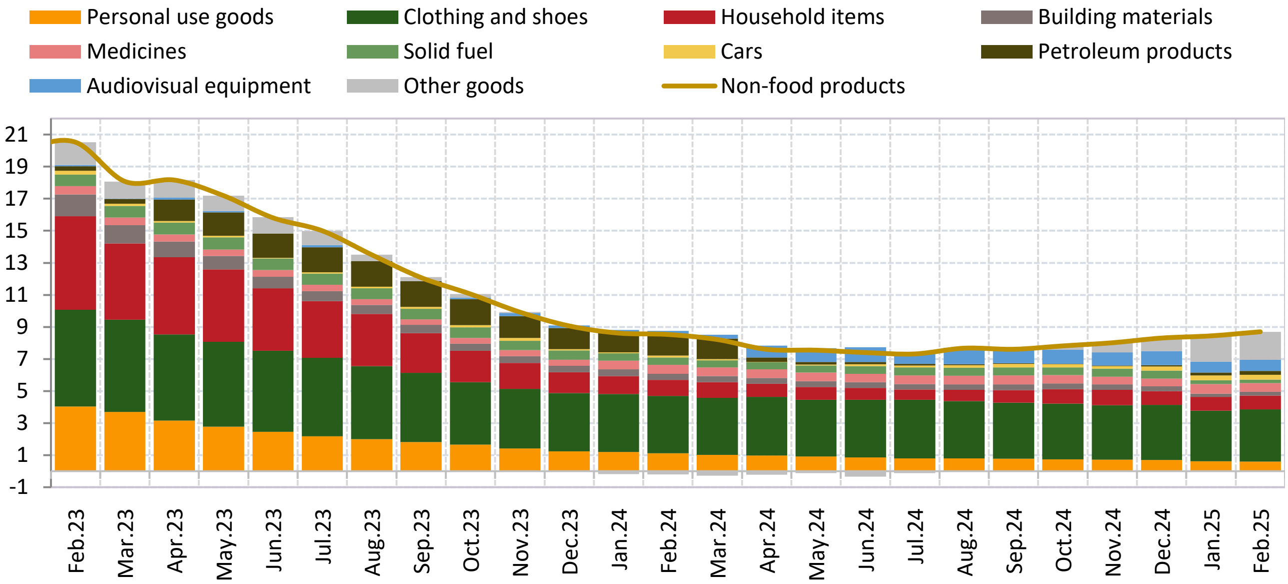
February – an increase in domestic prices with a decrease in external meat prices and a strengthening of the tenge.

Non-food inflation

In February 2025, the annual growth in prices for non-food products accelerated to 8.7% (January 2025 - 8.4%). In terms of product groups, an acceleration in the annual growth rate of prices for clothing and footwear, fuel and lubricants and construction materials, medicines, medical equipment and apparatus was recorded.

At the same time, annual disinflation is observed for cars, detergents and cleaning products, solid fuels and materials for the manufacture of clothing. In addition, for individual product groups, such as glass products and personal electrical appliances, annual deflation is observed (Graph 9).

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



Source: BNS ASPR RK, calculations of the NB RK

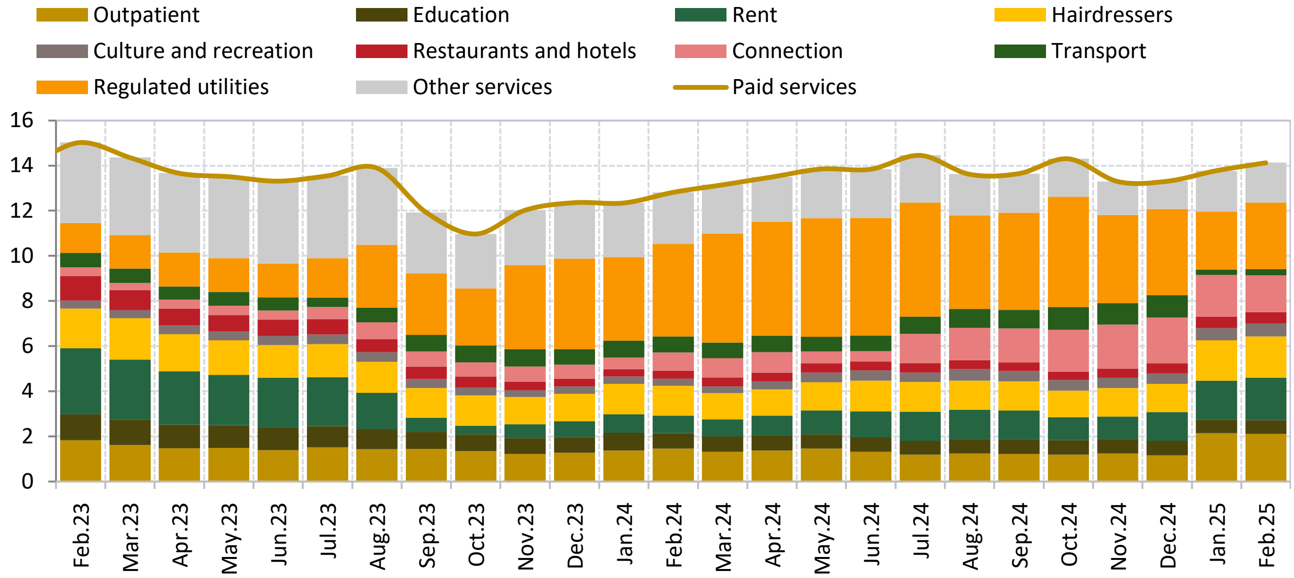
The monthly growth rate of non-food prices accelerated to 1% in February 2025 (0.6% in January 2025). This was due to the growth of prices for a wide range of goods in the context of stable domestic demand and the ongoing price restructuring in response to the weakening of the tenge in late 2024.

The largest contribution to monthly inflation in the non-food sector was made by prices for audiovisual equipment, which increased by 4.1%. At the same time, there was an increase in prices for electrical goods for personal use by 3.5%, tools and devices used in everyday life and gardening by 3.2%, household appliances by 2.5% and building materials by 1.1%. In addition, fuels and lubricants (F&L) increased in price by 0.5% in the context of liberalization of fuel prices. Given the significant share of fuel in the consumer basket and its impact on the cost of other goods, further growth in F&L prices may put upward pressure on overall inflation.

Service inflation

In February 2025, the annual growth in prices for paid services to the population accelerated to 14.1%. The main factors behind the acceleration were the increase in prices for regulated housing and communal services, as well as the rise in the cost of certain market services, including hospital services, hairdressing salons, and services for organizing complex recreation (Graph 10).

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



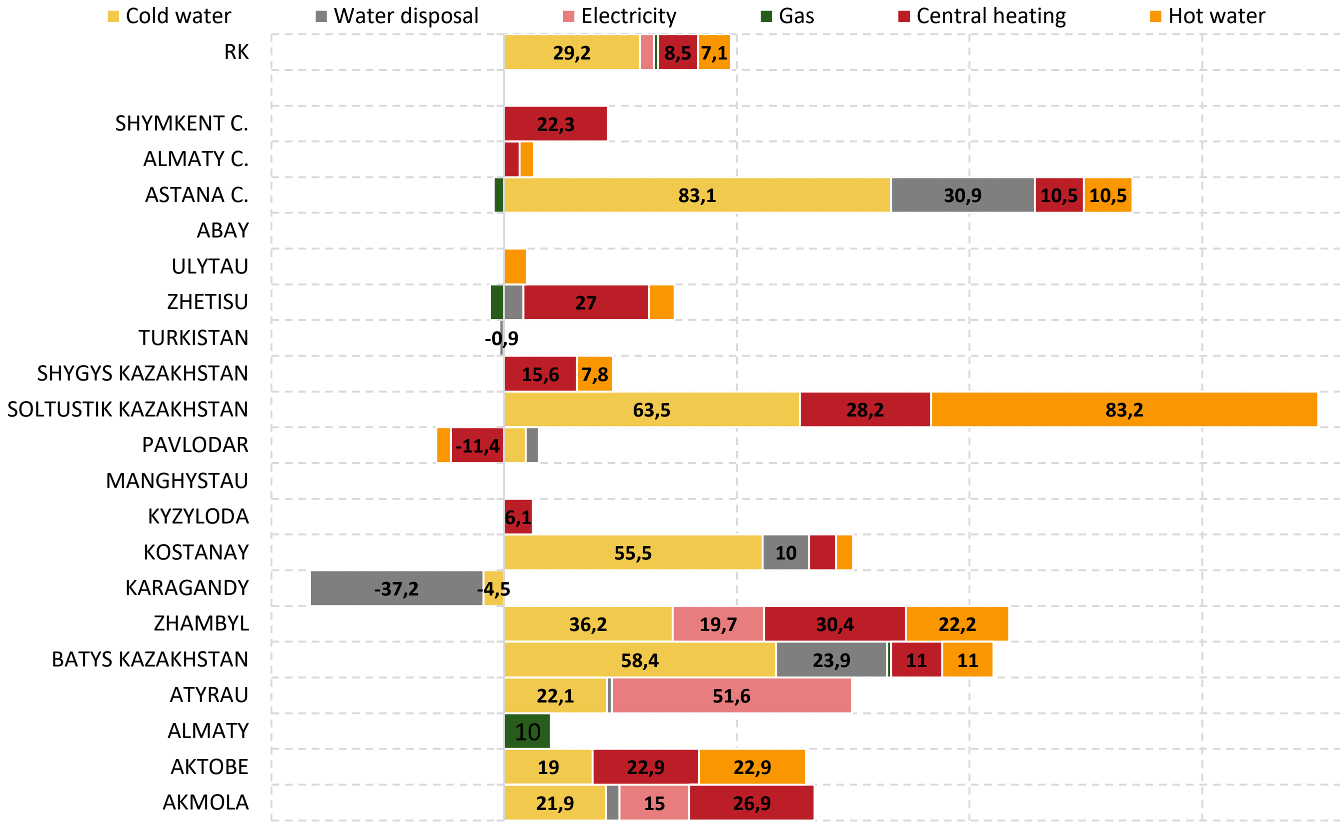
Source: BNS ASPR RK, calculations of the NB RK

The monthly growth rate of prices for paid services accelerated significantly, reaching 2.1% (January 2025 - 1.1%). Among market services, there was a significant increase in prices in certain categories. In particular, the services of complex recreation organizations increased in price by 10.8%, including trips to Dubai and Turkey. In addition, there was an increase in prices for hospital services by 3.2%, outpatient services - by 1.9%, and hairdressing services - by 1.7%. There was also an increase in prices for transport services by 1.3%, mainly as a result of an increase in airfare by 12.1%.

At the same time, there was a slowdown in the monthly growth of rent for housing from 2.7% in January to 0.3% in February 2025. Prices for insurance services decreased by 1.7%, having a restraining effect on service inflation.

In February 2025, the monthly growth rate of tariffs for regulated housing and communal services accelerated significantly and amounted to 7.1% (24.9% year-on-year) (Figure 11). In February, the largest increase in tariffs was recorded for water supply (29.2%). Tariffs also increased for central heating (6.2%), hot water (5.3%), electricity (1.8%) and gas supply (1.1%). At the same time, the cost of water disposal services decreased by 0.2% compared to the previous month.

Graph 11. Growth of prices for regulated housing and communal services by region, Jan-Feb 2025, m/m, %

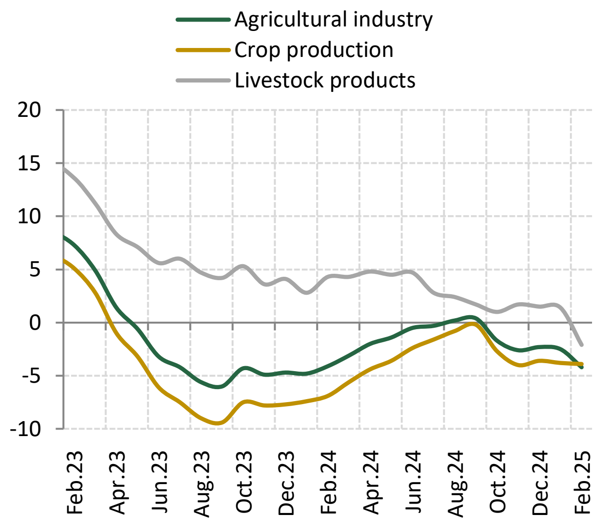


Source: BNS ASPR RK

Producer prices

In February 2025, producer prices for agricultural products continued to decline due to lower prices for wheat and chicken eggs. The growth of producer prices for food products remains moderate. In the services sector, transportation tariffs for freight by road and air continued to rise. Real estate prices and rental rates also continued their upward trend.

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



Source: BNS ASPR RK

In February 2025, crop production prices continued to decline, driven by the high grain harvest in 2024 (Graph 12). The price decrease was also influenced by lower prices for specific crops such as buckwheat, carrots, and greenhouse tomatoes.

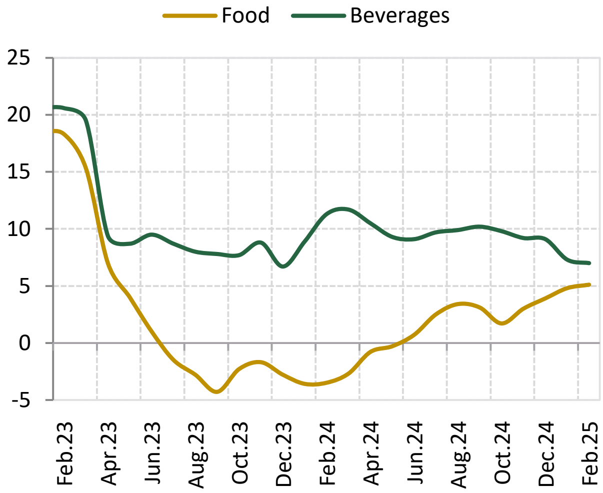
In livestock production, the overall price level decreased due to lower prices for chicken eggs. The decline in prices for category C1 eggs resulted from price stabilization measures that will remain in effect until the end of the current year[3]. Meanwhile, the prices of livestock and poultry continued to rise at a moderate pace.

[3] Memorandum of Cooperation between the Ministry of Trade and Integration of the Republic of Kazakhstan, the Kazakhstan Poultry Union, and the Kazakhstan Egg Producers Association.

In February 2025, producer prices for food products continued to grow (Graph 13). There was an increase in producer prices for oils and fats, dairy products, flour and grain-based products, bakery goods, pasta, and other flour-based products. The reduction in crop production prices had a more significant impact on lowering producer prices for animal feed.

Rising tariffs for electricity and water supply, as well as higher costs for transportation and storage services, continue to put pressure on production costs in the industry.

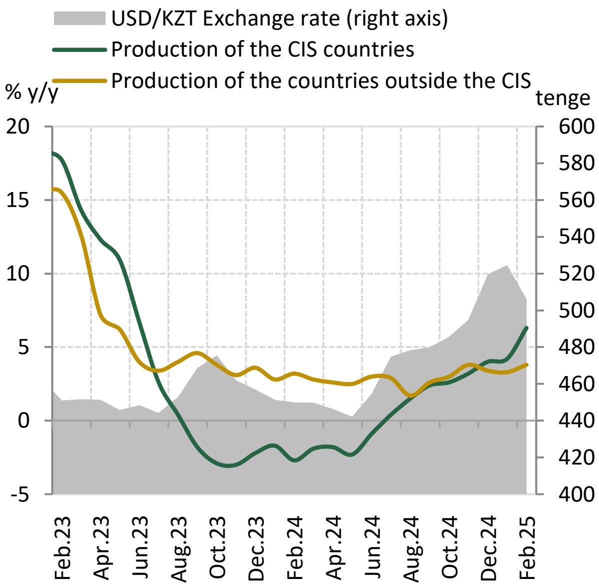
Graph 13. Producer prices for food products, %, y/y



Source: BNS ASPR RK

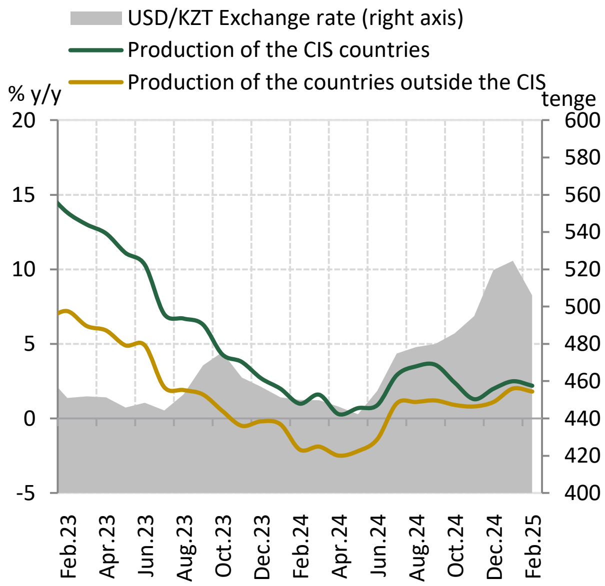
The increase in wholesale prices for food products in February 2025 was driven by higher prices for imported food items (Graph 14). Among food products, sunflower oil, coffee, cocoa, spices, sugar, chocolate, bakery, and confectionery products became more expensive. In the category of non-food products, prices continued to rise for imported textiles from CIS countries, pharmaceutical products, and automobiles manufactured outside the CIS (Graph 15).

Graph 14. Wholesale prices for food products



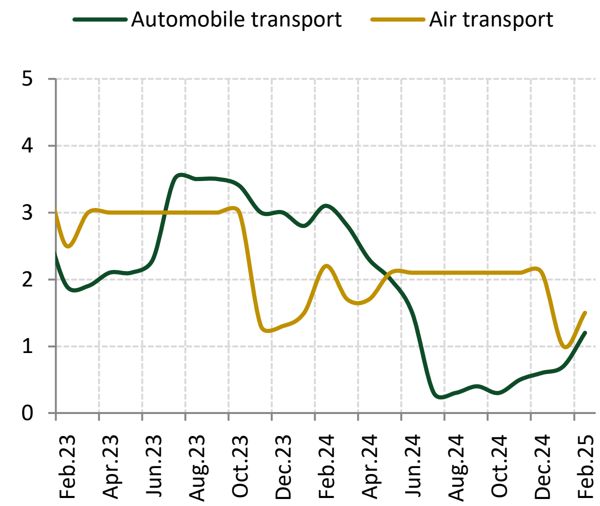
Source: BNS ASPR RK

Graph 15. Wholesale prices for non-food products



Source: BNS ASPR RK

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



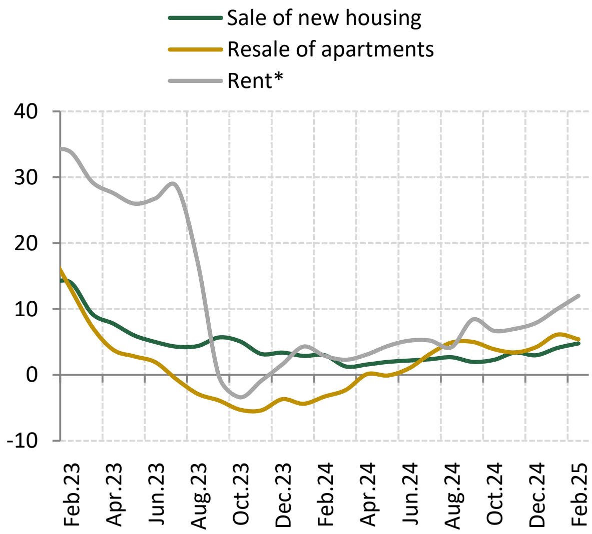
Source: BNS ASPR RK

The growth rate of road freight transportation tariffs accelerated to 1.2% y/y in February 2025 following the removal of price caps on fuel products. Meanwhile, the cost of air freight transportation increased by 1.5% y/y (Graph 16).

The real estate market saw a 4.8% y/y increase in new housing prices. The rise in primary housing prices is attributed to lower residential construction completion rates in January 2025, as well as higher construction costs. At the same time, prices in the secondary real estate market increased by 5.4% y/y.

The increase in rental prices is outpacing real estate price growth, reaching 12.0% y/y. The rise in rental housing costs may be linked to higher utility prices and the beginning-of-year indexation aimed at maintaining real income levels (Graph 17).

Graph 17. Prices on the real estate market , %, y/y



Source: BNS ASPR RK

*Rent of comfortable housing in cities of regional and republican significance