



NATIONAL BANK OF KAZAKHSTAN

INFLATION TRENDS

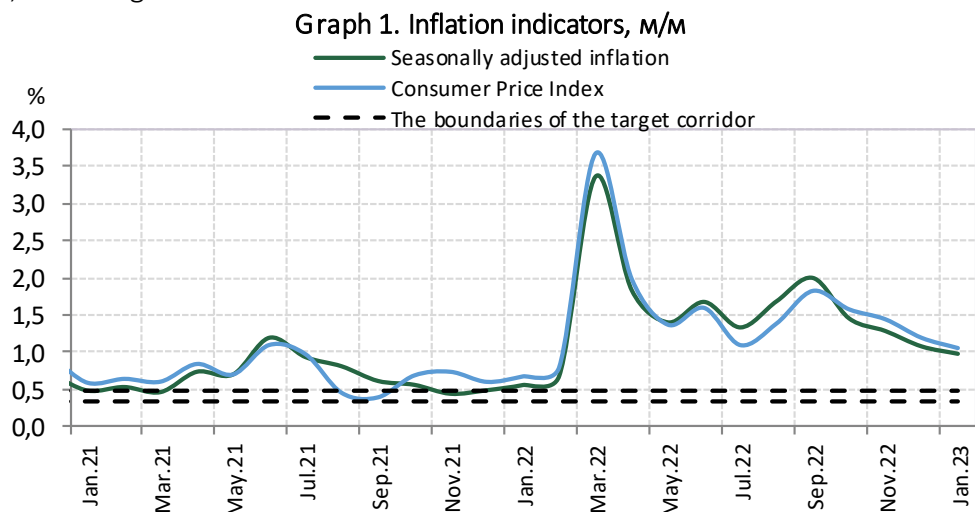
January **2023**

Inflation in January 2023 amounted to 1.1%, in annual terms price growth accelerated to 20.7%. Prices for bakery products and cereals, including rice, continued to rise among food products due to increased demand from Russia. The cold snap in the southern regions of the country and the loss of part of the harvest reflected in the rise in prices of fruit and vegetable products.

In the non-food component of inflation, the demand for certain goods is supported by the growth of consumer and mortgage lending. The rise in the price of goods with a high share of imports continues. Coal has become more expensive amid increasing tariffs for transportation. The cost of cars has increased against the background of increased demand and the rise in the cost of spare parts. In the structure of paid services, Internet subscription fees have increased, as well as fares for road and rail passenger transport.

Monthly inflation in January 2023 was 1.1%, annual price growth of consumer goods and services accelerated to 20.7% (in December 2022 – 20.3%), which is the highest value since April 1997.

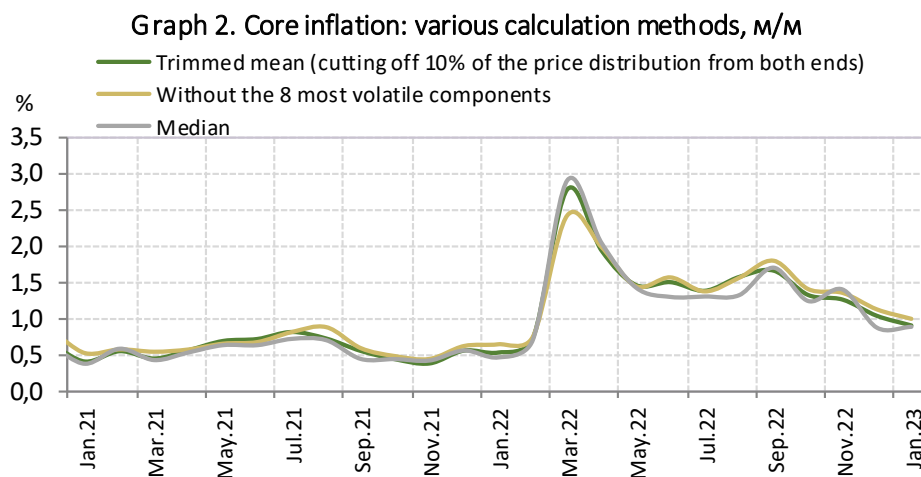
The monthly seasonally adjusted inflation continues to slow down, with an increase of 1% in January 2023. At the same time, the growth rates are still forming above the target levels. The seasonal rise in prices affected goods whose prices traditionally rise in winter, in particular solid fuels, fresh vegetables and fruits.



Source: BNS ASPR RK, calculations of the NB RK

The core seasonally adjusted inflation¹, calculated by various methods, is slowing down moderately, but still continues to form at elevated levels. This indicates the persistence of a prolonged high inflationary background in the economy.

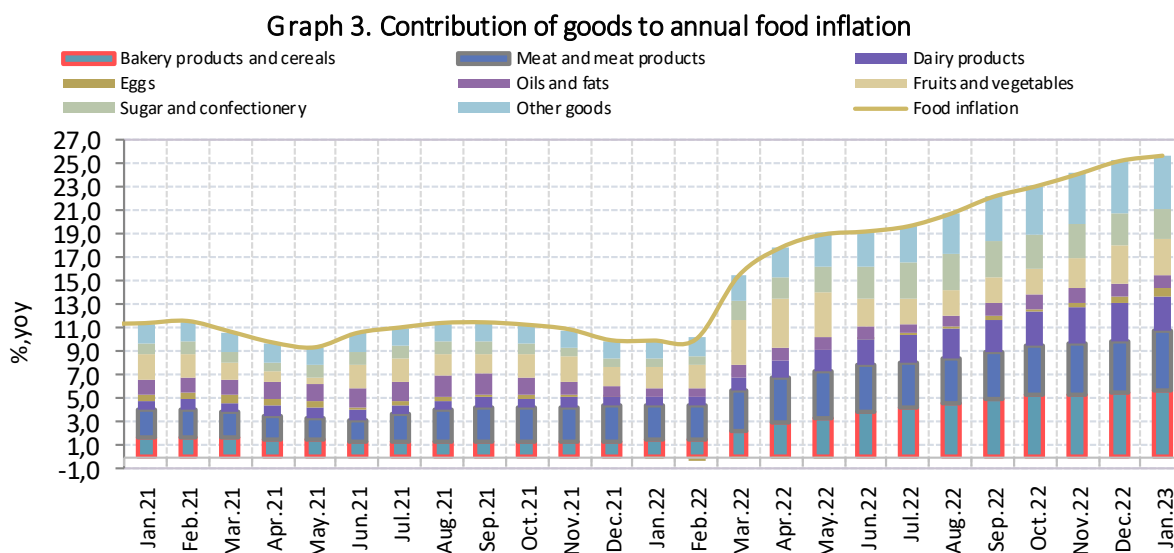
¹ Core inflation is a value that characterizes a steady change in prices. The trimmed mean is calculated by excluding from the calculation 10% of the smallest and 10% of the largest seasonally adjusted price changes in a given month; core inflation without the 8 most volatile components excludes from the inflation calculation those 8 components whose standard deviation of seasonally adjusted price changes over the past 2 years is the maximum; the median is a 50% percentile distribution of seasonally adjusted price changes in a given month.



Source: BNS ASPR RK, calculations of the NB RK

Annual **food** inflation accelerated to 25.7% YoY in January 2023 (25.3% in December 2022). The growth of prices for bakery products and cereals has accelerated. There is an increase in the price of rice by 39.6% (YoY) amid increased demand from Russia. According to the results of January-November 2022, rice exports to Russia increased by 60.6% (YoY) due to the poor harvest of this crop in Russia.

There is a higher increase in prices for dairy products. As a result of low temperatures in the southern regions of the country and the loss of part of the harvest, fresh vegetables have significantly increased in price from 7.1% in October 2022 to 21% in January 2023, in particular cucumbers (from 22.3% to 55.6%) and onions (from 13.6% to 62.4%). After the abolition of subsidizing prices for Category 1 eggs, the annual rate of price growth accelerated from 7.9% in August 2022 to 25.8% in January 2023. Due to a significant increase in domestic sugar production, decrease of sugar price continues for the fifth month in a row.



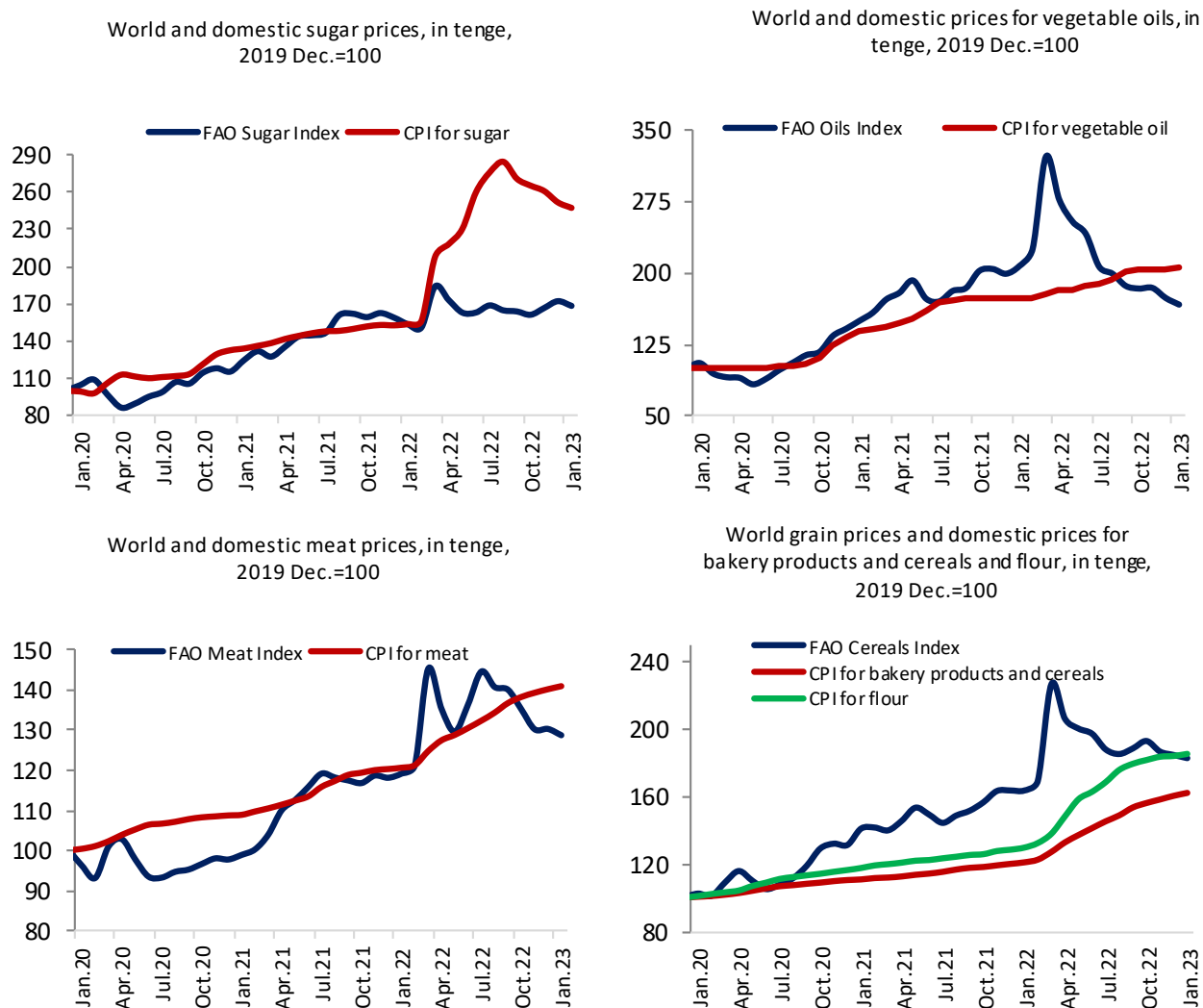
Source: BNS ASPR RK, calculations of the NB RK

In January 2023, there was an increase in the difference between domestic and external prices for vegetable oils and meat. The main factors were an increase in domestic prices due to rising costs and a reduction in external prices against the background of low global demand for oils and a wide export supply for beef and poultry meat.

In the sugar market, there is a gradual reduction in the gap between world and domestic prices due to a decrease in domestic prices in the context of an increase in production by 52.9% (YoY) in January-November 2022 and the relative stability of world prices.

The discrepancy between domestic flour prices and world grain prices has decreased to minimal values, while at the same time a moderate increase in domestic prices for bakery products and cereals continues as a result of rising costs and inflationary expectations.

Graph 4. Dynamics of world and domestic prices for individual food products²

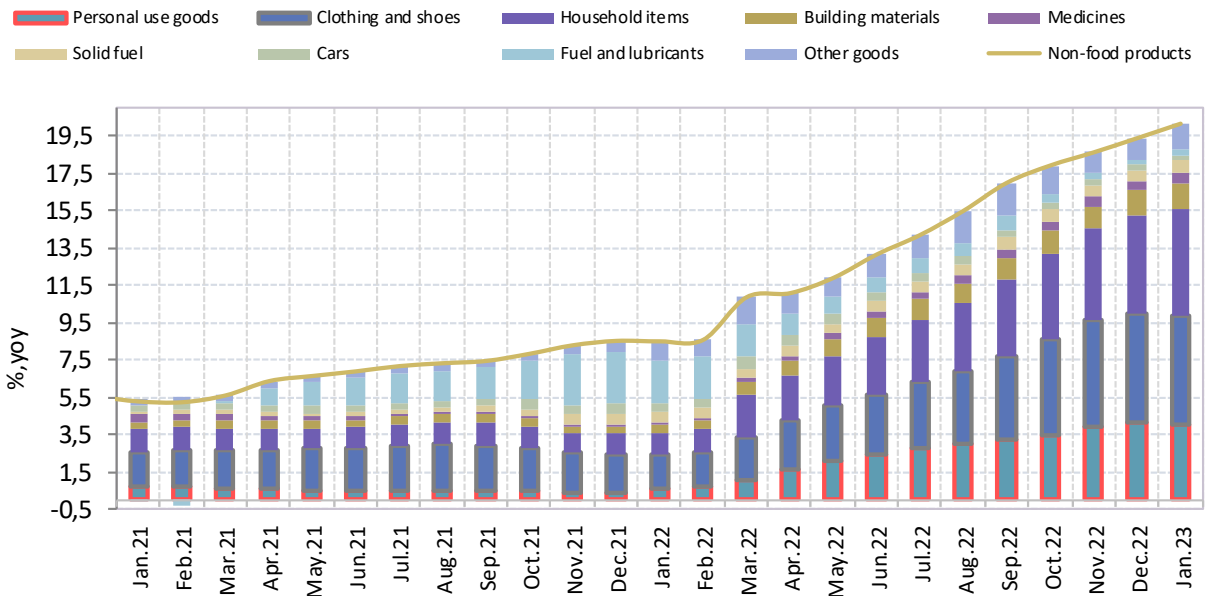


Source: BNS ASPR RK, UN FAO, calculations of the NB RK

The annual increase in prices for **non-food products** in January 2023 accelerated to 20.2% (in December 2022 – 19.4%). The increase in prices for a number of non-food products is supported by the demand of the population in conditions of high growth rates of mortgage and consumer lending. In the group of goods with a high share of imports, there was an increase in the cost of clothing and footwear (18.2%), household textiles (16.4%), detergents and cleaning products (51.5%), construction materials (25.7%) and medicines (15.6%). In addition, prices for personal goods have been accelerating for more than a year as a result of a reduction in supplies from Russia due to the withdrawal of key manufacturers from the Russian market and disruption of logistics supply chains. In the conditions of increasing tariffs for transportation, coal has become more expensive. Due to increased demand and the rise in the cost of spare parts, the cost of cars has increased.

² The change in the corresponding indices since December 2019 (December 2019 = 100), taking into account the average monthly exchange rate of tenge to the US dollar.

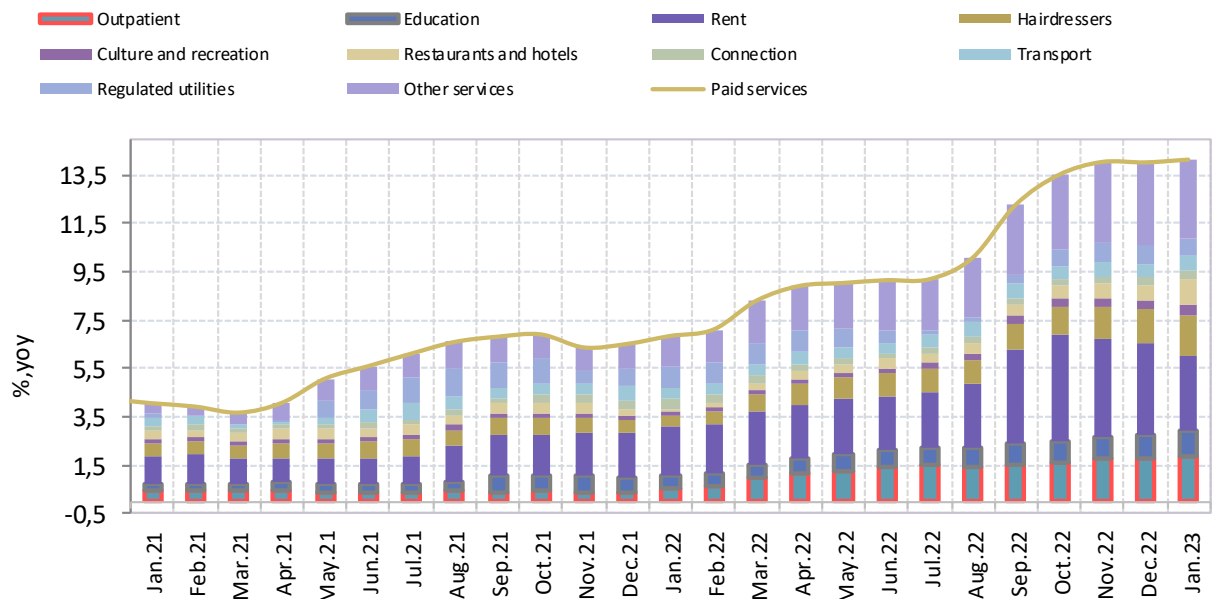
Graph 5. Contribution of goods to annual non-food inflation



Source: BNS ASPR RK, calculations of the NB RK

The inflation of **paid services for the population** in January 2023 slightly accelerated to 14.2% (in December 2022 – 14.1%). There is a continued increase in prices for outpatient services and services in the field of culture and recreation in the context of the rise in the cost of means of production, intermediate materials. The subscription fee for Internet access has increased. In the context of regulated utilities, tariffs for central heating in the city of Shymkent have increased. The fare for passenger rail transport increased by 24.7% and taxi fare by 12.2% (YoY).

Graph 6. Contribution of services to the annual inflation of paid services



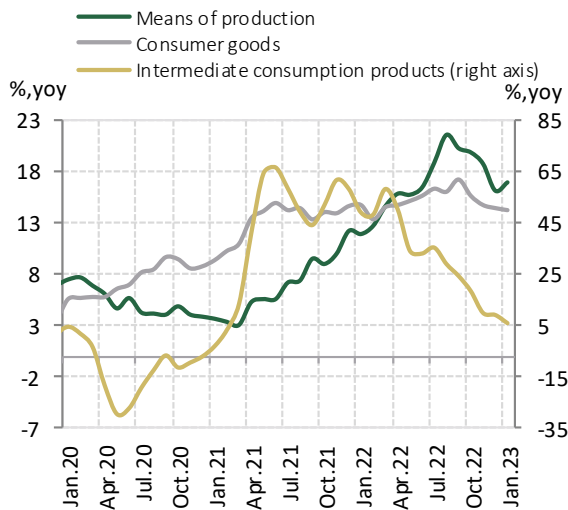
Source: BNS ASPR RK, calculations of the NB RK

- Acceleration of producer price growth in the manufacturing industry as a result of higher growth in prices for means of production, while there is a tendency to slow down the inflation of food producers
- A slowdown in producer price growth in agriculture, mainly due to a slowdown in wheat price growth due to sufficient stocks

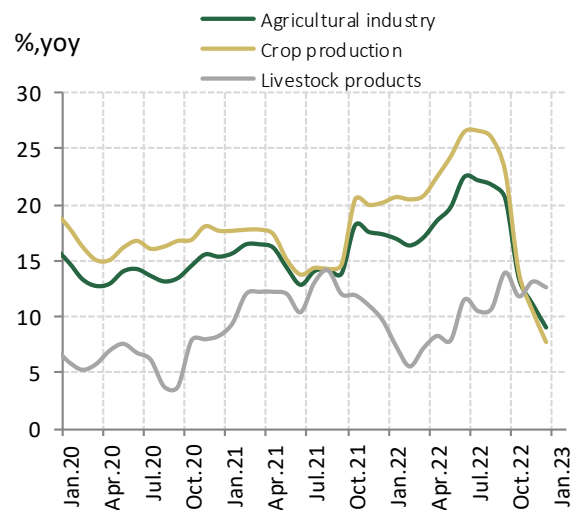
The producer price index in the manufacturing industry in January 2023 accelerated to 11%, YoY (in December 2022 – 10.5%) against the background of a slight acceleration in the growth of prices for means of production (up to 16.8%, YoY). Meanwhile, the growth of prices of food producers tends to slow down, including prices of meat, oils and fats, sugar, flour-grain and bakery products. At the same time, the price growth of dairy producers is accelerating. There is an acceleration in the growth of prices of car assembly enterprises due to the rise in the cost of spare parts and consumables.

In agriculture, producer price growth slowed to 8.5% in January 2023 (9% in December 2022). In crop production, due to a significant increase in stocks, there is a lower increase in wheat prices. Among livestock products, the growth of prices for poultry in live weight and raw cow's milk accelerated due to the rise in the cost of feed and electricity. It is also worth noting a sharp acceleration in the growth of egg prices due to the change in the subsidy category.

Graph 7. Prices in industry



Graph 8. Prices in agriculture



Source: BNS ASPR RK