



NATIONAL BANK OF KAZAKHSTAN

INFLATION TRENDS

May **2023**

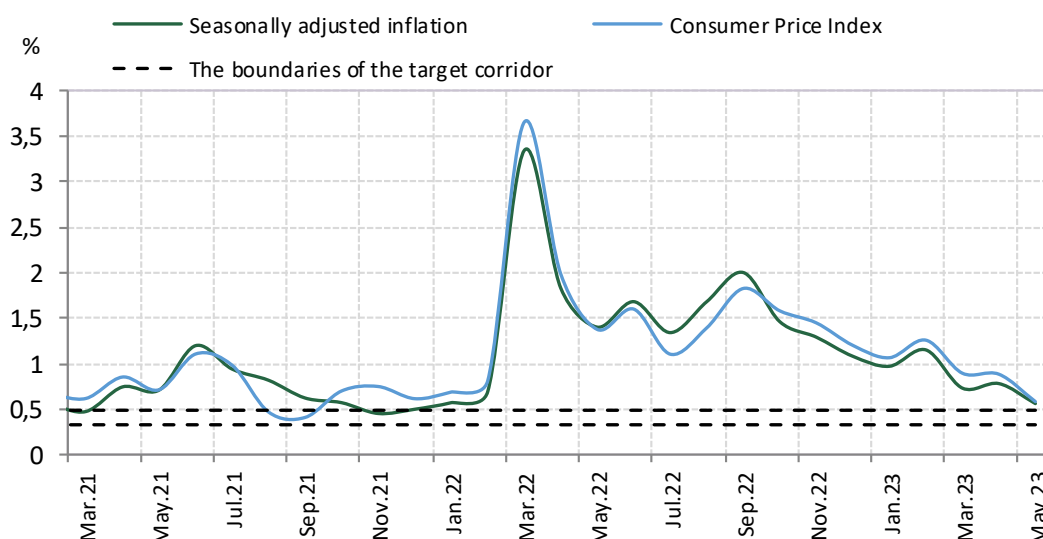
In May 2023, annual inflation amounted to 15.9%, continuing the slowdown for the third month in a row. Monthly inflation in May 2023 accounted for 0.6%, with an average price increase of 0.5% for May in the period from 2017 to 2021.

In the structure of food products, rice prices continued to rise in May as a result of a reduction in domestic production. Meat and dairy products have risen in price against the background of rising transportation costs and the cost of live cattle. At the same time, prices for buckwheat continued to decline due to the good performance of the buckwheat harvest in 2022. Lower prices for sunflower seeds caused a reduction in prices for sunflower oil for the fourth month in a row. In non-food products, there is an increase in the cost of clothing, shoes and personal goods.

Among the paid services for the population, the cost of outpatient services has increased. Tariffs for rail and air passenger transportation have increased significantly on the eve of the holiday season.

Seasonally adjusted inflation slowed down in May 2023, approaching the upper limit of the target corridor, and is on par with inflation without adjustment for seasonality. Thus, the seasonal rise in the price of goods and services in the summer period, due to an increase in demand (air travel, tourist services), is offset by a seasonal decrease in prices for goods due to an increase in supply (fruit and vegetable products, certain types of agricultural products) (Graph 1).

Graph 1. Inflation indicators, m/m



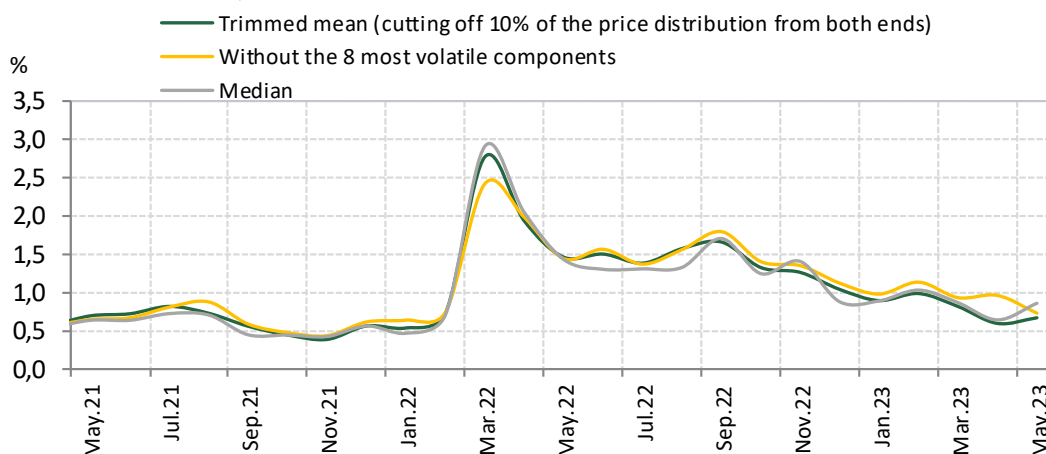
Source: BNS ASPR RK, calculations of the NB RK

The median estimate of core inflation, calculated by various methods¹, accelerated

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

slightly in May 2023. Consequently, pro-inflationary processes have not exhausted the impact in the stable component of inflation (Graph 2).

Graph 2. Core inflation: various calculation methods, m/m



Source: BNS ASPR RK, calculations of the NB RK

The annual growth of **food** prices in May 2023 slowed down to 16.5% (in April 2023 – 17.9%), monthly growth – 0.5%. The main contribution to the annual food inflation continues to be made by bakery products, dairy and meat products. Against the background of the exit from the calculations of the high base of 2022, there is a slowdown in the annual growth of prices for bakery products and cereals from 34.1% in January to 23.4% in May, for meat – from 16.9% to 13%, for dairy products – from 32.4% to 23.6%, for oils and fats – from 22.4% to 12.2%, fruits and vegetables – from 21.2% to 7.6%. At the same time, the annual growth in sugar prices slowed from 91.9% in August 2022 to 1% in May 2023 (Graph 3).

Among the group of bakery products and cereals, rice prices continue to grow significantly in the context of a reduction in domestic production by 10.7% (YoY) in January-March 2023. Meanwhile, prices for buckwheat have decreased by 10.9% since the beginning of the year as a result of an increase in the buckwheat harvest by 15.1% in 2022.

The rise in the price of meat and dairy products is observed against the background of rising transportation costs and prices for live cattle. Due to the reduction in import prices, as well as the reduction in the cost of sunflower seeds in the conditions of the introduced permanent export duty², consumer prices for sunflower oil have been declining for the fourth month. The growth of domestic sugar production has led to a decline in sugar prices, which has been observed since September 2022.

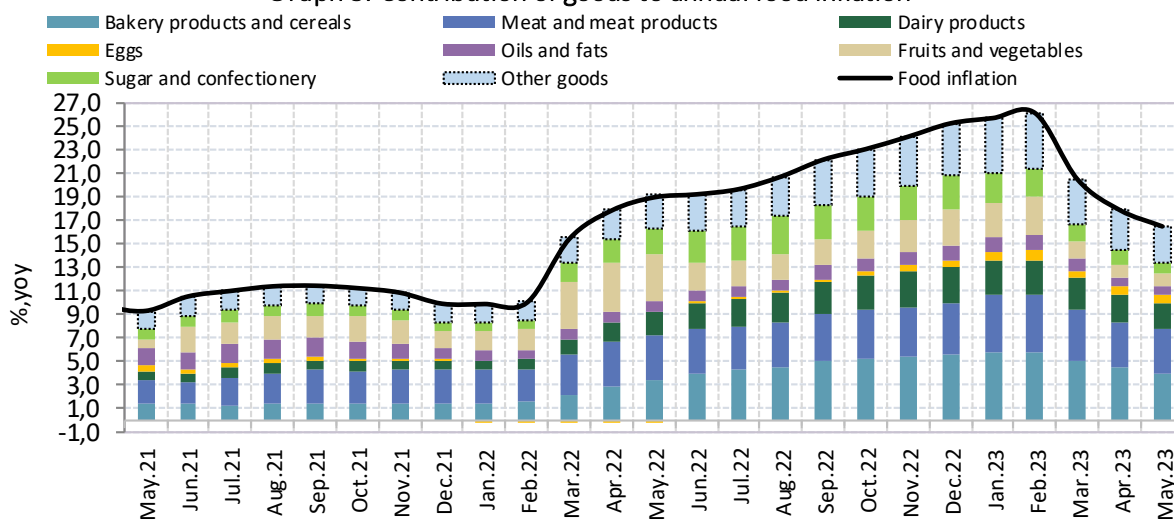
The increase in supply against the background of the appearance of an open-ground vegetable harvest caused a decrease in prices for cucumbers and tomatoes. On the other hand, prices for cabbage, onions, carrots and potatoes have increased significantly due to the severe frosts in the south of the country and in neighboring countries at the beginning of the year, which affected the timing and volume of the spring harvest.

components excludes from the inflation calculation 8 components whose standard deviation of seasonally adjusted price changes over the past 2 years is the maximum; median is a 50% percentile of the distribution seasonally-cleared price changes in a given month.

The National Bank of Kazakhstan makes estimates of core inflation through a variety of methods. The description of calculation methods is presented in the article "Various estimates of core inflation for Kazakhstan" on the official website of the National Bank.

² Order of the Deputy Prime Minister - Minister of Trade and Integration of the Republic of Kazakhstan dated January 20, 2023 No. 35-HK On amendments to the Order of the Minister of National Economy of the Republic of Kazakhstan dated February 17, 2016 No. 81 "On approval of the List of goods in respect of which export customs duties are Applied, the amount of rates and their validity period and the Rules for calculating the amount of export customs duties on crude oil and goods produced from oil"

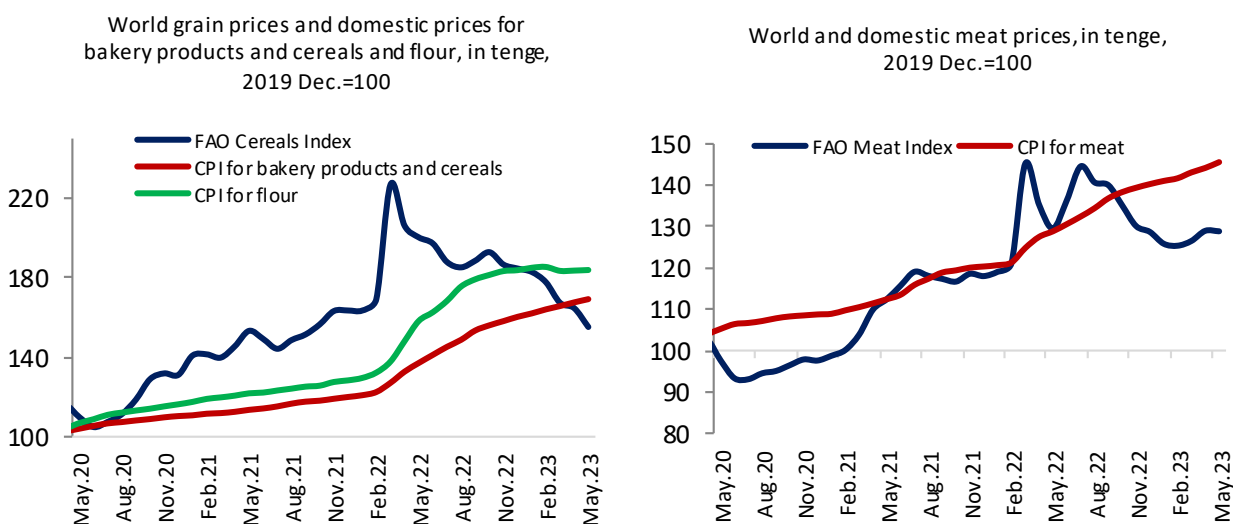
Graph 3. Contribution of goods to annual food inflation



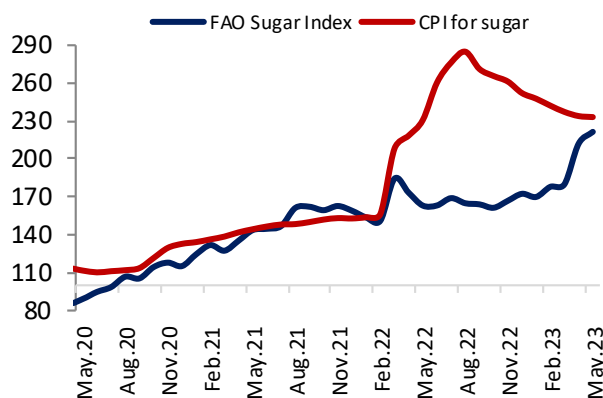
Source: BNS ASPR RK, calculations of the NB RK

Domestic prices for certain types of food are formed above world prices. Despite the increase in world meat prices caused by high import demand, the strengthening of the tenge exchange rate in May 2023 offset this increase. World grain prices have been continuously declining since October 2022. However, domestic prices for flour, bakery products and cereals continue to rise, which may be due to high production costs. Internal and external prices for vegetable oils are declining. The expansion of the differential between prices is associated with the strengthening of the tenge exchange rate and the growth of supply on world markets. At the same time, world sugar prices, despite the strengthening of the tenge exchange rate, increased significantly due to uncertainty about the world harvest of 2022 -2023, which reduced the price differential (Graph 4).

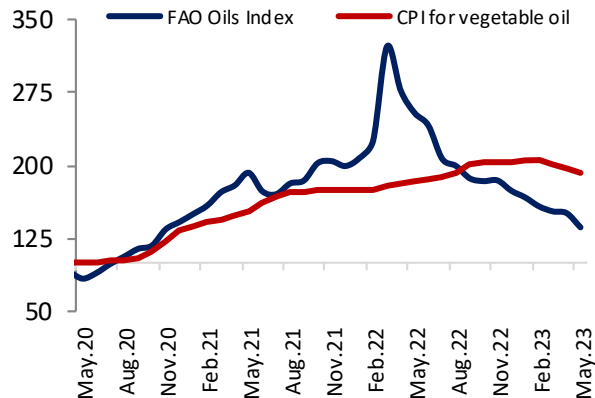
Graph 4. Dynamics of world and domestic prices for individual food products



World and domestic sugar prices, in tenge, 2019 Dec.=100



World and domestic prices for vegetable oils, in tenge, 2019 Dec.=100

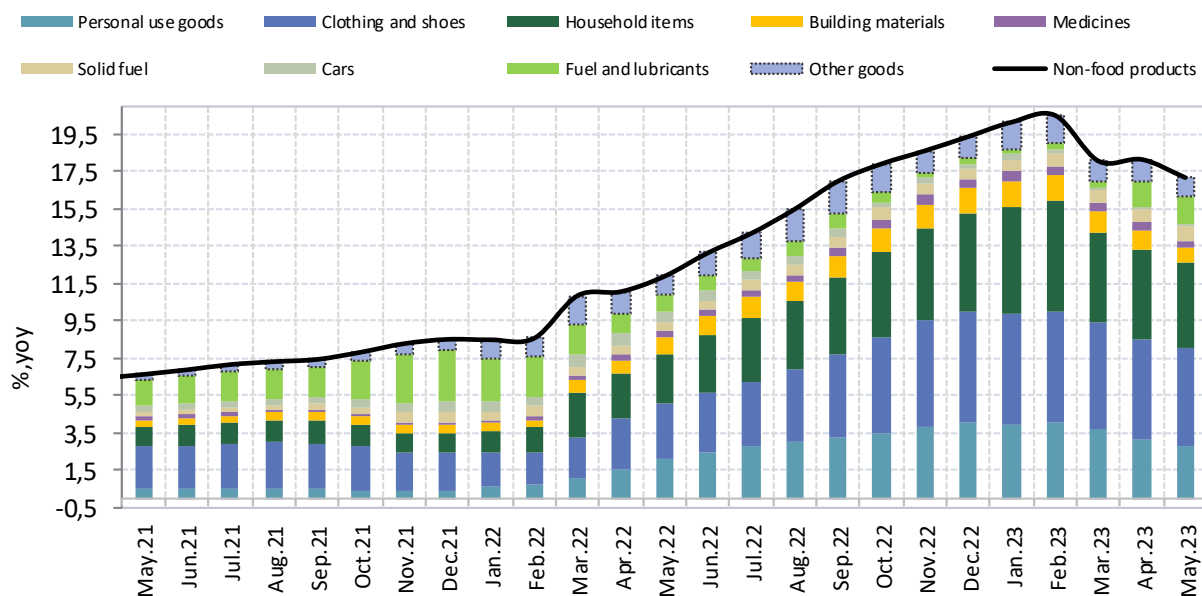


Source: BNS ASPR RK, UN FAO, calculations of the NB RK

Non-food products in May 2023 rose in price by 0.5%, annual price growth slowed to 17.2% (in April 2023 – 18.2%). The main contribution to the price increase was made by the rise in the cost of clothing and shoes, household items and personal goods. The cumulative contribution to non-food inflation of the above-mentioned goods is 12.6 p.p. (Graph 5).

Prices for textile materials, products and shoes of imported production have increased. Moreover, against the background of rising import prices, prices for personal goods have increased. After the April increase in marginal prices for fuels and lubricants, in May the price increase for AI-92 gasoline amounted to 1.2% (12.6%, YoY), AI-95 – by 1.3% (4.6%, YoY), summer diesel fuel – by 0.7% (23.3%, YoY). In household items, there is an increase in the cost of furniture, glass cutlery, as well as tools and equipment used in everyday life and gardening.

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



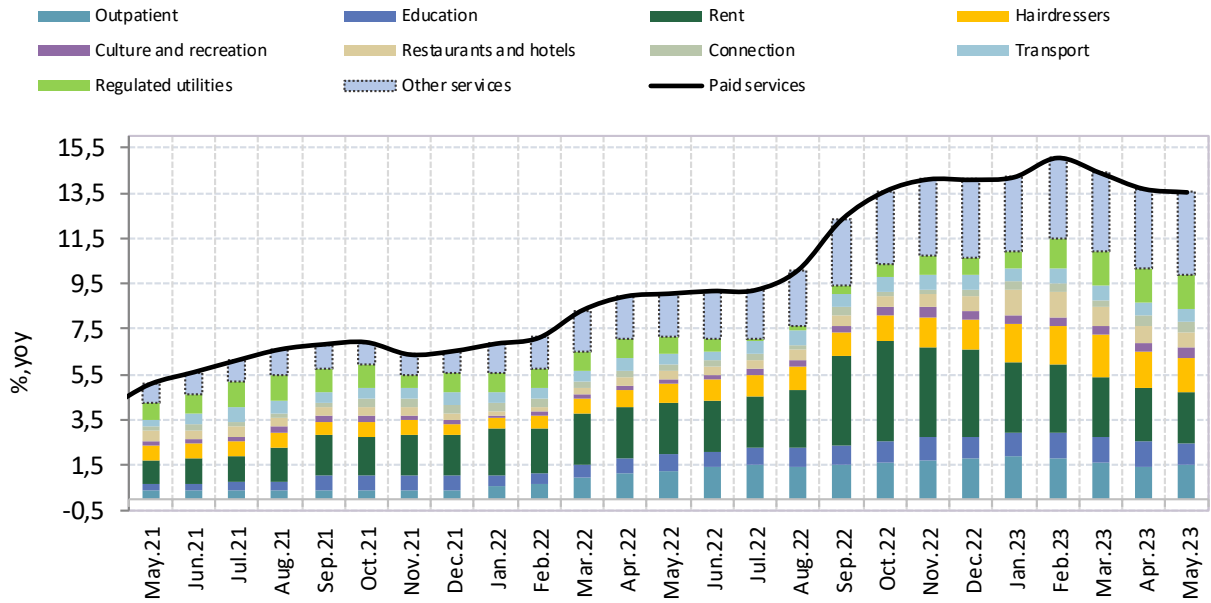
Source: BNS ASPR RK, calculations of the NB RK

Prices for **paid services for the population** in May 2023 increased by 0.7%, in annual terms there was a slight slowdown in price growth to 13.5% (in April 2023 – 13.7%) (Graph 6).

In May, the cost of nurses and midwives, as well as physiotherapy, significantly increased in the structure of outpatient services. On the eve of the summer holidays, prices for children's attractions have significantly increased. In the services of educational institutions,

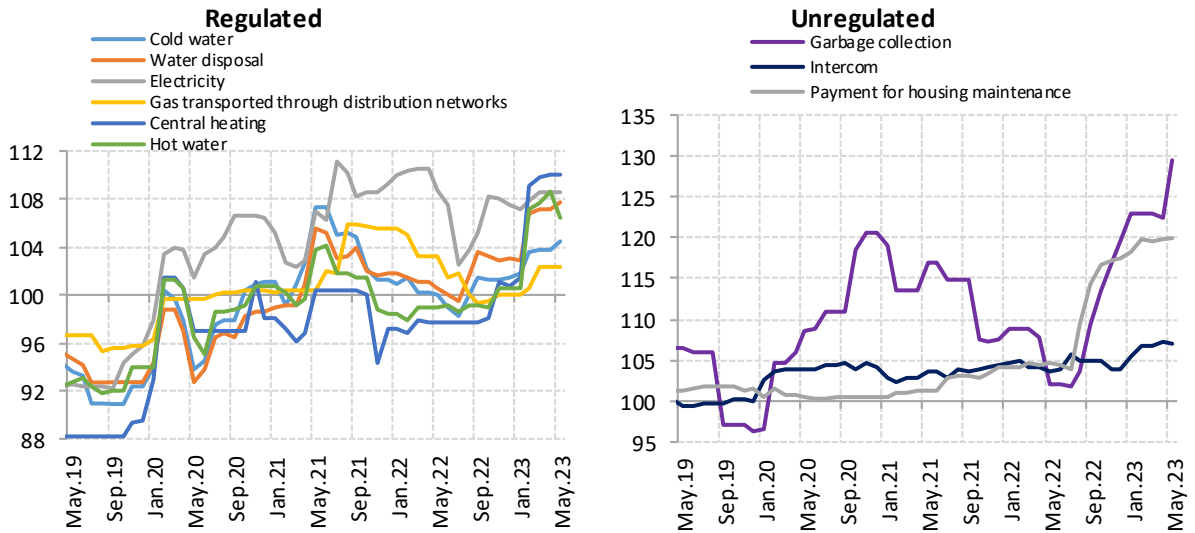
there is an increase in prices for services of preschool institutions. The cost of hairdressing and catering services has increased. The price of holidays in sanatoriums within the country has increased as well. Before holiday season, prices for rail and air passenger transport have increased significantly. Among unregulated utilities, tariffs for garbage collection have increased (Graph 7).

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



Source: BNS ASPR RK, calculations of the NB RK

Graph 7. Consumer price index for utilities, YoY



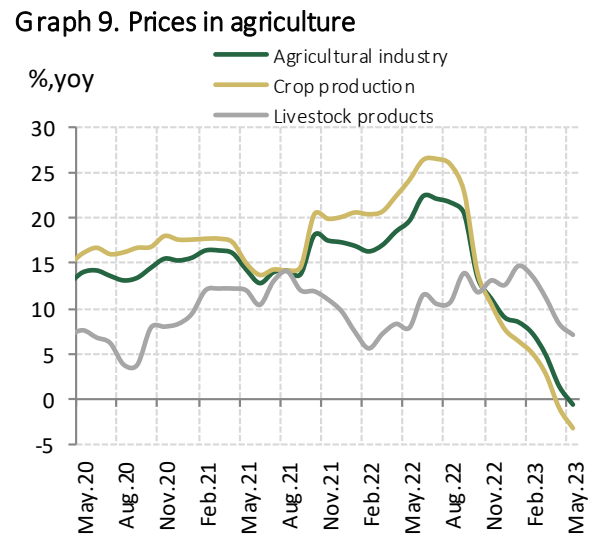
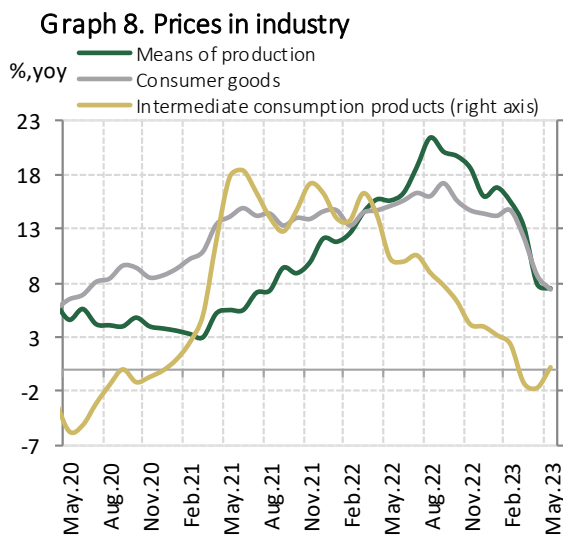
Source: BNS ASPR RK

- The growth of producer prices in the manufacturing industry has been slowing down since February 2023 due to a prolonged slowdown in the growth of prices for means of production and intermediate consumption products
- The slowdown in producer inflation in agriculture continues as a result of the slowdown in wheat prices

Annual producer inflation in the manufacturing industry slowed from 11% in January 2023 to 0.4% in May as a result of a slowdown in the growth of prices for means of production and intermediate consumption products (Graph 8). Among food producers in May 2023, there is a slowdown in the growth of prices of producers of meat, dairy products, bakery and pasta. At the same time, the prices of producers of flour-grain products, oils and fats are reduced.

In non-food products, there is an acceleration in the growth of prices of manufacturers of footwear and pharmaceutical products. On the other hand, the price growth of manufacturers of paints, paper products and detergents is slowing down.

In May, prices of agricultural producers decreased by 0.6% (YoY) for the first time since July 2014. The main contribution was made by a decrease in annual producer prices in crop production by 3.2% (YoY) due to a decrease in prices for wheat and oilseeds due to a sufficient supply and a reduction in world prices. In addition, the price growth of cucumber and tomato producers is slowing down. Price growth in animal husbandry continues to slow down as well (Graph 9).



Source: BNS ASPR RK