



NATIONAL BANK OF KAZAKHSTAN

INFLATION TRENDS

July 2023

Monthly inflation in July amounted to 0.6%, annual inflation slowed down from 21.3% in February to 14% in July 2023. The slowdown is noted for all main components of inflation.

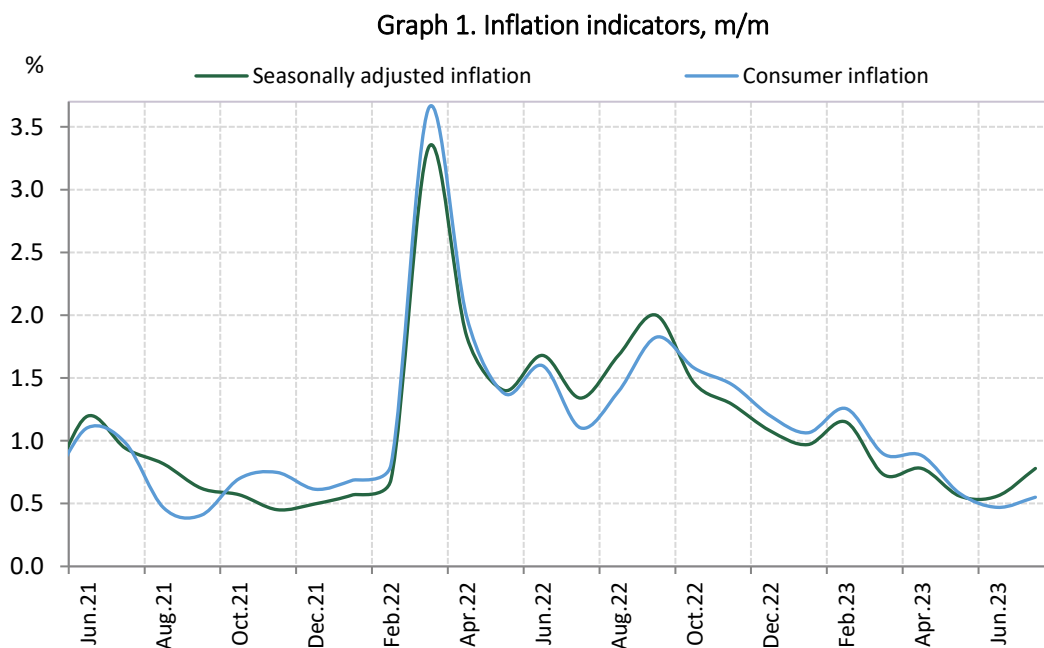
The main contribution to inflation continues to be made by the rise in the cost of food products. Nevertheless, its contribution decreases along with the increase in the contribution of non-food products and services against the background of a gradual increase in regulated tariffs for housing and communal services and the rise in price of fuels and lubricants.

In the group of food products, there is a slowdown in the growth of flour prices due to decline in wheat prices. Some fruit and vegetable products are getting cheaper seasonally. Along with this, prices for meat and dairy products have increased due to the rise in the price of hay and electricity.

Among non-food products, there is an increase in gasoline prices due to an increase in price ceiling. The growing demand of the population has led to higher prices for audiovisual equipment, information storage equipment and individual household appliances.

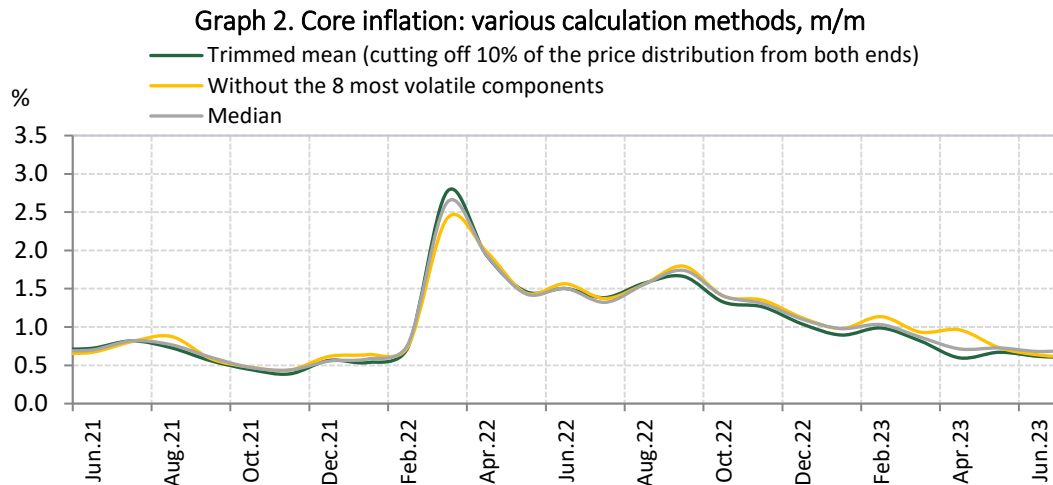
In the structure of paid services for the population, the cost of cellular tariffs has increased against the background of increased costs for providing services. Among utilities, there is an increase in gas and electricity tariffs.

Inflation, adjusted for seasonal factors, has accelerated markedly. The acceleration occurred against the background of rising prices for certain types of housing and communal services, vegetables, dairy products and imported goods (Graph 1).



Source: BNS ASPR RK, calculations of the NB RK

Core inflation indicators calculated by various methods demonstrate stable dynamics, estimates remained at the level of the previous month. Thus, the median of the range of estimates of core inflation was 0.7% (Graph 2). At the same time, the annualized indicator of the median estimate accelerated to 8.8% (June 2023 – 8.5%). The dynamics of core and seasonally adjusted inflation reflect the predominance of pro-inflationary processes in the economy.

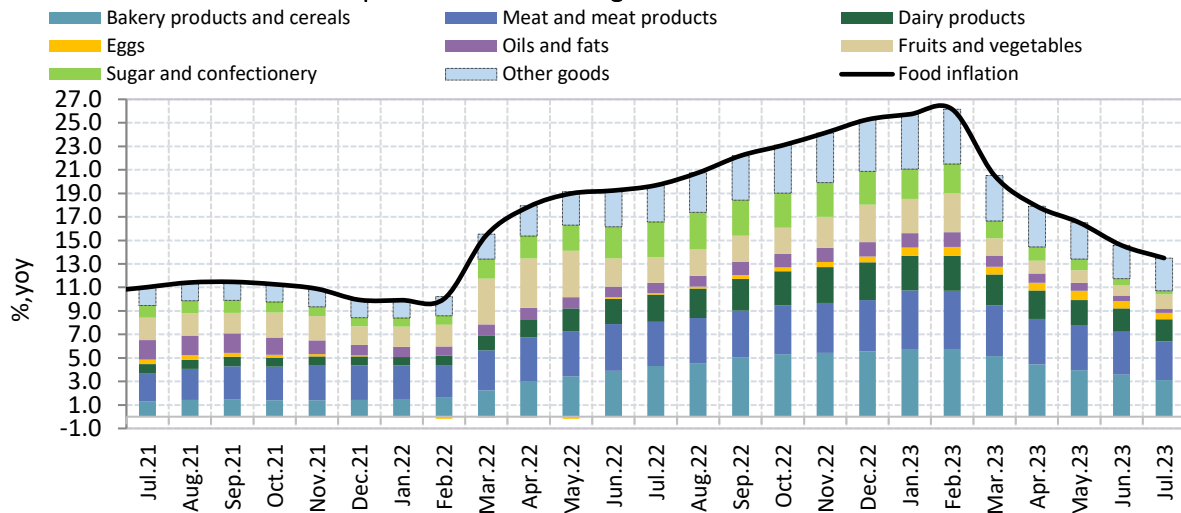


Source: BNS ASPR RK, calculations of the NB RK

The annual growth in **food** prices in July 2023 slowed to 13.5% (in June 2023 – 14.6%). In the structure of food products, the main contribution to annual inflation was made by meat products, bakery products and cereals. The contribution of all commodity groups decreased except for fruits and vegetables, which made an increased contribution due to the low base of 2022 (Graph 3).

Monthly price growth for bakery products and cereals has slowed down, but within the group there is a high increase in rice prices due to the low harvest of last year and global price growth, as well as for various dough products against the background of rising prices of ingredients for cooking. The cheapening of buckwheat groats continues, which has been going on since the beginning of the year, with a good buckwheat harvest last year. Flour prices have been declining for the second month in a row due to a reduction in wheat quotations. Prices for meat and dairy products have increased against the background of the rise in the price of hay and electricity. Sunflower oil has fallen in price by 12.5% since February 2023 due to significant reserves of sunflower seeds and a decrease in world prices. At the same time, there is a seasonal reduction in the cost of certain vegetables and fruits. Sugar prices are declining due to sufficient resources within the country and a reduction in world prices.

Graph 3. Contribution of goods to annual food inflation



Source: BNS ASPR RK, calculations of the NB RK

The dynamics of domestic prices continues to exceed world prices. At the same time, the differential between internal and external food prices has multidirectional dynamics.

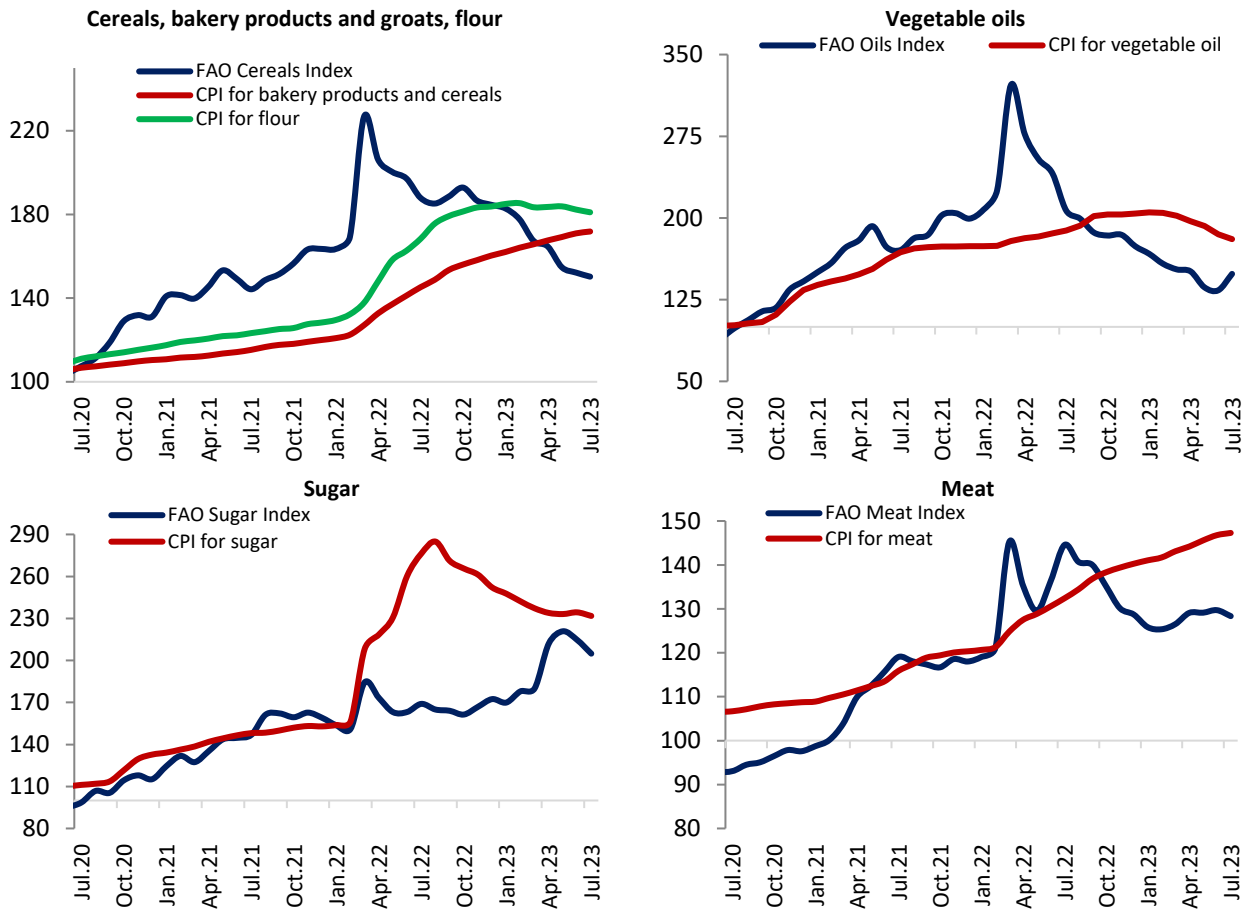
The price differential for vegetable oils is decreasing. World prices for sunflower oil are rising as a result of uncertainty about the export supply from the Black Sea region after the termination of the Grain deal. At the same time, domestic prices are declining, due to the reduction in world prices in the past months, the introduction of export duties on sunflower seeds and substantial reserves.

The gap between world and domestic sugar prices, which has grown significantly since February-March 2022, sharply decreased in April-May 2023 against the background of a significant increase in world prices amid uncertainty about the global harvest. At the same time, in June-July 2023, external prices, as well as domestic ones, are declining due to the expected favorable level of production in exporting countries.

Domestic flour prices, after a prolonged increase, began to decline following world grain prices. Due to the faster decline in grain prices on world markets, the discrepancy between domestic and foreign prices is increasing. At the same time, the slowdown in the growth of prices for intermediate products led to lower rates of price growth for bakery products and cereals.

The discrepancy between internal and external prices for meat products is increasing mainly as a result of internal price increases due to the rise in the cost of electricity, hay and live cattle (Graph 4).

Graph 4. Dynamics of world and domestic prices for individual food products¹,
In tenge, 2019 Dec. = 100



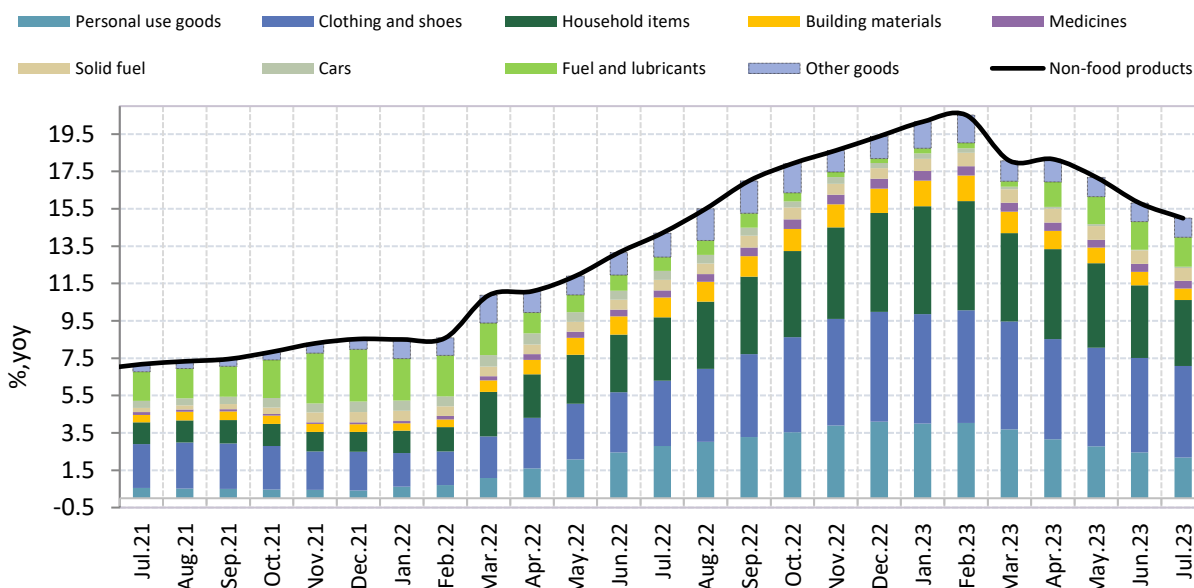
Source: BNS ASPR RK, UN FAO, calculations of the NB RK

The growth of prices for **non-food products** in annual terms in July 2023 slowed to 15% (in June 2023 – 15.8%). With a lower increase in import prices in the conditions of strengthening of the tenge exchange rate and a higher base in 2022, there is a slowdown in annual inflation for a wide range of goods, in particular, for clothing and footwear, personal goods, medicines, household appliances, furniture, carpets, building materials, detergents and cleaning products (Graph 5).

In the structure of fuels and lubricants, there is a monthly increase in prices for engine oil, as well as a residual rise in the price of gasoline due to an increase in price ceiling. The increased demand of the population as a result of the promo actions by second-tier banks contributed to an increase in prices for audiovisual equipment, information processing equipment and some household appliances.

¹ 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

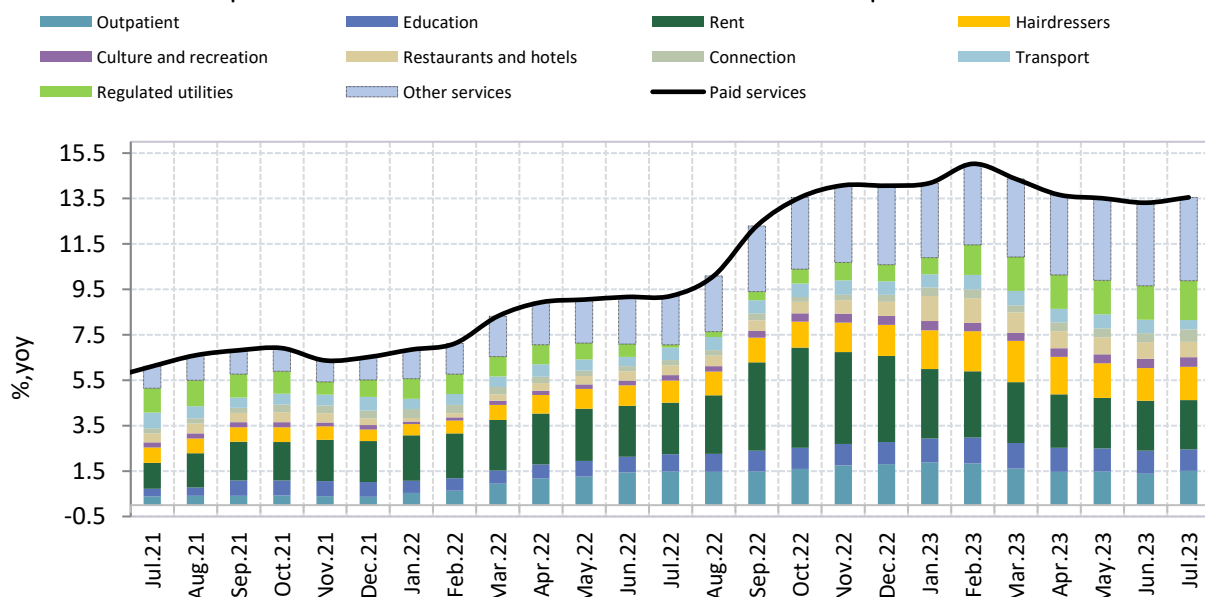


Source: BNS ASPR RK, calculations of the NB RK

Paid services for the population in July 2023 rose by 13.6% in annual terms (in June 2023 – 13.3%) (Graph 6). Outpatient services and services in the field of recreation, entertainment and culture have significantly increased in price. The cost of renting housing has increased.

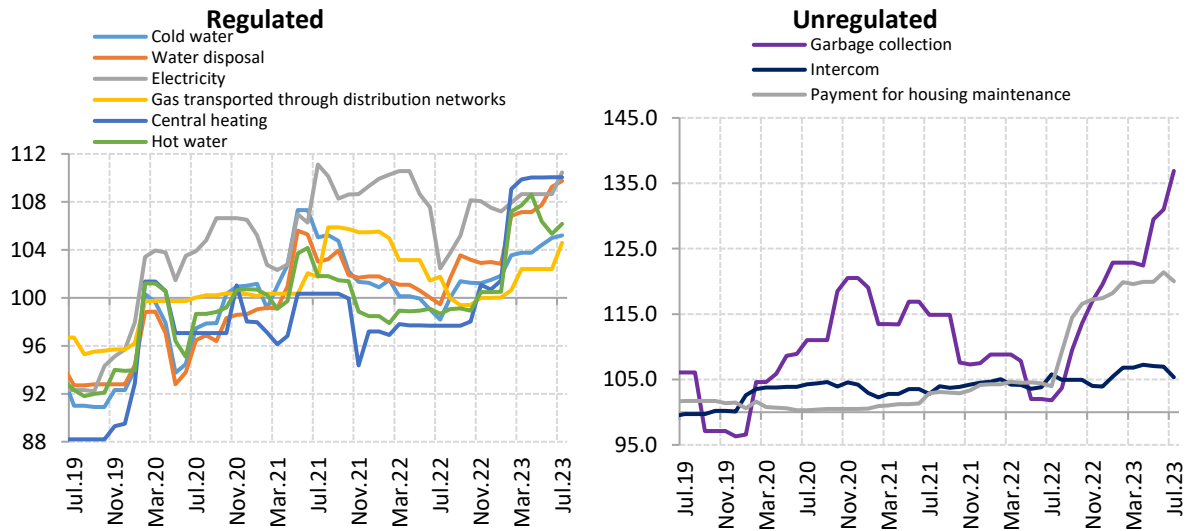
Due to the increase in the cost of providing the service, tariffs for cellular communication services have increased. Prices for hairdressing services have increased. At the same time, the price of air tickets in the economy class has increased by 49.6% since April 2023. Within utilities in July 2023, the cost of gas increased by 2.5% (m/m), electricity – 1.7%, hot water – 0.4%, cold water – 0.3%, sanitation – 0.6%. In addition, tariffs for garbage collection increased by 4.5% (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



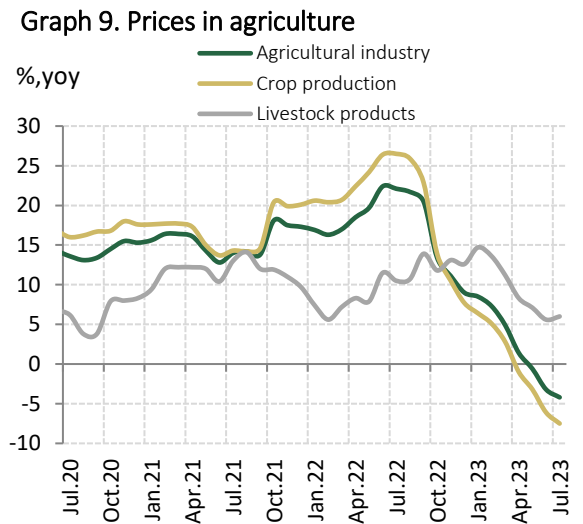
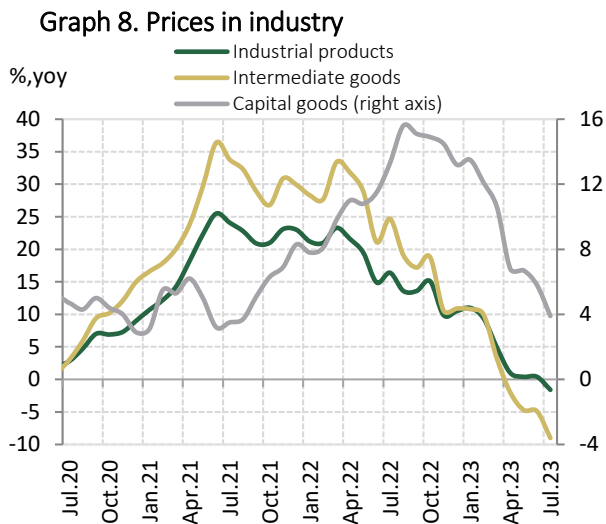
Source: BNS ASPR RK

- The producer price index in the manufacturing industry declined in July 2023 as a result of lower prices for intermediate goods and a slowdown in the growth of prices for capital goods
- Prices in agriculture are declining, mainly in the context of a decline in wheat quotations

In the manufacturing industry, producer prices in July 2023 decreased by 1.6% year-on-year for the first time since September 2015 (in June 2023 – an increase of 0.4%). The main factors were a decrease in prices for intermediate goods and a slowdown in the growth of prices for capital goods (Graph 8).

Prices of food producers began to decline in July 2023 (by 1.5% yoy), in particular, there is an acceleration in the decline in prices for oils and fats, flour and cereal products, sugar. In addition, the price growth of producers of meat, dairy, bakery and pasta products has slowed down. In the group of non-food products, the price growth of manufacturers of furniture, cars, detergents and cleaning products slowed down.

In July 2023, the decline in producer prices in agriculture accelerated by 4.2% (in June 2023 – a decrease by 3.2%, YoY) (Graph 9). Wheat prices have been declining since September 2022. As a result of the introduction of export duties and significant stocks, prices for sunflower seeds are falling. Among fresh vegetables, the prices of cabbage, pepper, eggplant and onion producers have increased. In the structure of forage crops, the cost price has increased. Within livestock products prices for live poultry, raw cow's milk and eggs have increased.



Source: BNS ASPR RK