



NATIONAL BANK OF KAZAKHSTAN

INFLATION TRENDS

September **2023**

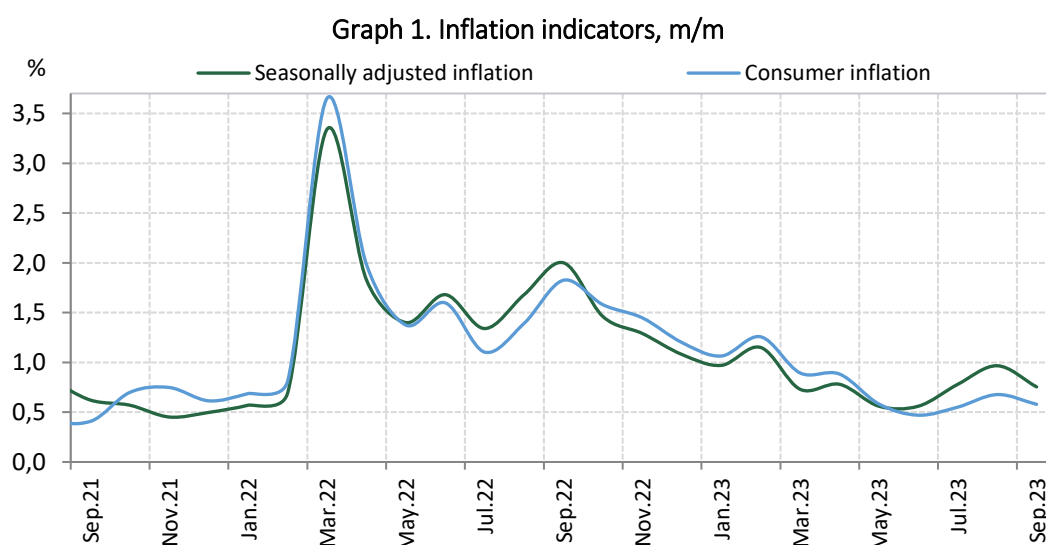
Annual inflation continued to slow down for the seventh month in a row amounting to 11.8% in September 2023. The slowdown in inflation is taking place amid base effect, weakening of external inflationary pressures, reduction of domestic production costs as well as the ongoing monetary policy.

There is a slowdown in the annual growth rates of all major components of inflation. Food inflation in September 2023 slowed to 11.4% (YoY) against the background of lower prices of food producers and agricultural products. Non-food inflation slowed to 12.1% (YoY) due to lower import prices. At the same time, the contribution of rising prices for fuels and lubricants to non-food inflation has remained stable since this April.

After accelerating in July-August, the inflation of paid services slowed down to 11.9% (YoY) in September 2023. In the structure of paid services in September, there is an increase in the cost of educational services, which is due to the beginning of the school year. At the same time, the contribution to service inflation of the increase in tariffs for regulated utilities remains high as part of the implementation of the government program "Tariff in exchange for investment".

Despite the slowdown in annual inflation, the monthly growth rate of consumer prices in September 2023 amounted to 0.6%, which is still higher than the historical average (the average value in September 2017-2021 was 0.3%).

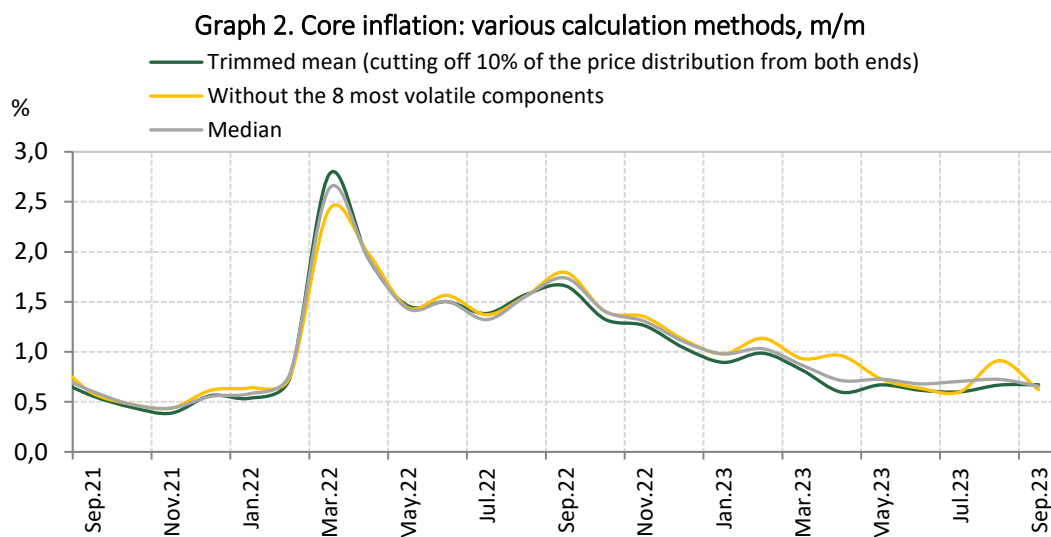
Seasonally adjusted inflation slowed to 0.8% in September compared to August against the background of a more moderate increase in prices for housing and communal services, as well as a decrease in prices for household appliances, goods and services for household management (Graph 1).



Source: BNS ASPR RK, calculations of the NB RK

The median estimate of seasonally adjusted core inflation, calculated by various methods, in September 2023 accounted for 0.7%. This indicator has been fixed at this value since April 2023, which may indicate continued price growth for a wide range of goods.

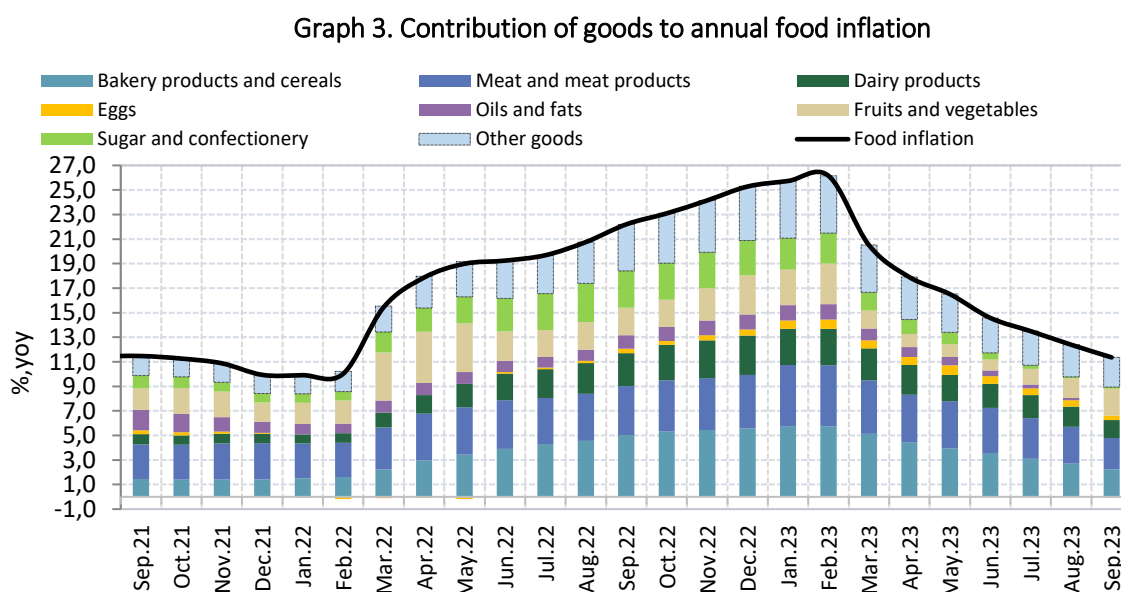
At the same time, this September the variance (range) of estimates of seasonally adjusted core inflation has decreased as well as its upper limit, which indicates a trend towards stabilization of inflationary processes and a gradual slowdown in price growth in the stable part of inflation. The range of estimates of core inflation in September decreased to 0.5%-0.8% from 0.4%-1% in August 2023 (Graph 2).



Source: BNS ASPR RK, calculations of the NB RK

In the structure of **food inflation**, there is a decrease in the contribution of all major commodity groups, with the exception of fruits and vegetables (Graph 3). In September 2023, the monthly increase in food prices accelerated to 0.3% (in August – 0%).

This year prices for fresh vegetables in the summer months and in September decreased to a lesser extent compared to last year. This led to an acceleration in the annual growth rate of prices for this category of goods from 9% in June to 22.1% in September 2023 (September 2022 – an increase of 10%, YoY).



Source: BNS ASPR RK, calculations of the NB RK

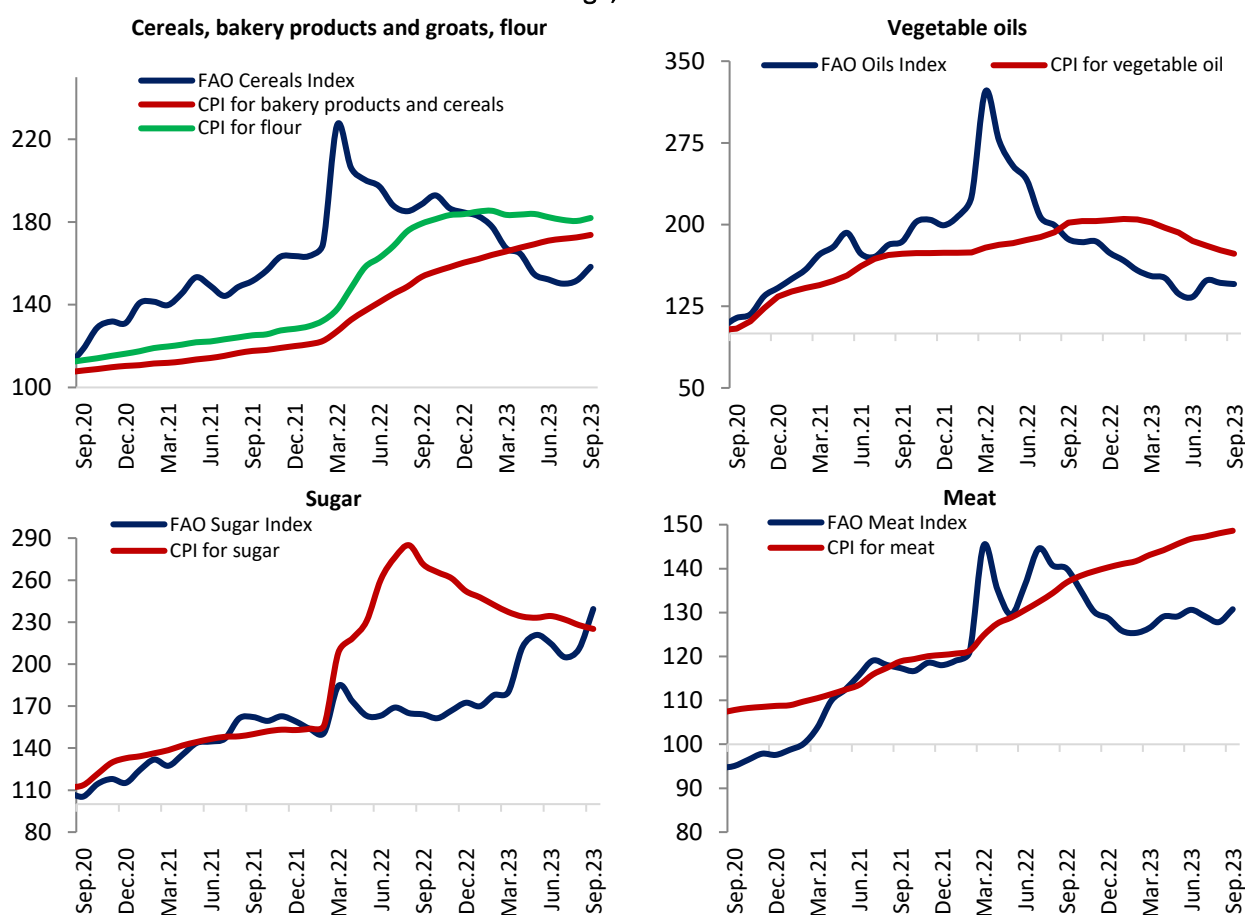
There is an increase in the price of bakery products and cereals by 0.7% (in August – 0.4%) as a result of rising prices for flour due to a poor wheat harvest. Unfavorable weather conditions during the harvest period this year have affected the deterioration of the average yield and quality of wheat. In September, rice prices continued to rise (by 3.2% MoM, 41.3%, YoY), due to a decrease in domestic production in January-July 2023 by 14.5% YoY and an increase in world price for this type of grain.

At the same time, prices for buckwheat continued to decline in September (by 2.1% MoM and by 18.3% YoY) due to the presence of significant rolling stocks from last year. The

growth of prices for meat products slowed down to 0.4% (in August – 0.5%, MoM) against the background of a decrease in hay prices (by 0.7% MoM), as well as a slowdown in the growth of prices for some types of live cattle. The decline in prices for sunflower oil, which began this February, continued. The price dynamics is associated with the presence of significant stocks of sunflower seeds, which is due to the export duty on sunflower seeds introduced at the beginning of this year on a permanent basis, as well as a decrease in world prices for vegetable oils. Sugar prices continued to decline (by 1.2% MoM and by 17% YoY) amid an increase in sugar supply on the domestic market due to an increase in imports from Russia (in January-July 2023, total sugar imports increased by 61.2% YoY, Russia's share in sugar imports – 55.9%) with a decrease in domestic sugar production by 7% YoY.

Domestic prices for certain types of food products continue to exceed world prices (Graph 4). At the same time, the price differential for vegetable oils and grains decreases with the expansion of the price differential for meat. In September of this year, world sugar prices exceeded domestic prices for the first time since November 2021.

**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

In September 2023, world prices for cereals increased by 1% (MoM) due to an increase in prices for feed grains. The increase in corn prices also contributed to the acceleration due to the high demand for supplies from Brazil. In annual terms, the decline in world grain prices continued (by 14.6%).

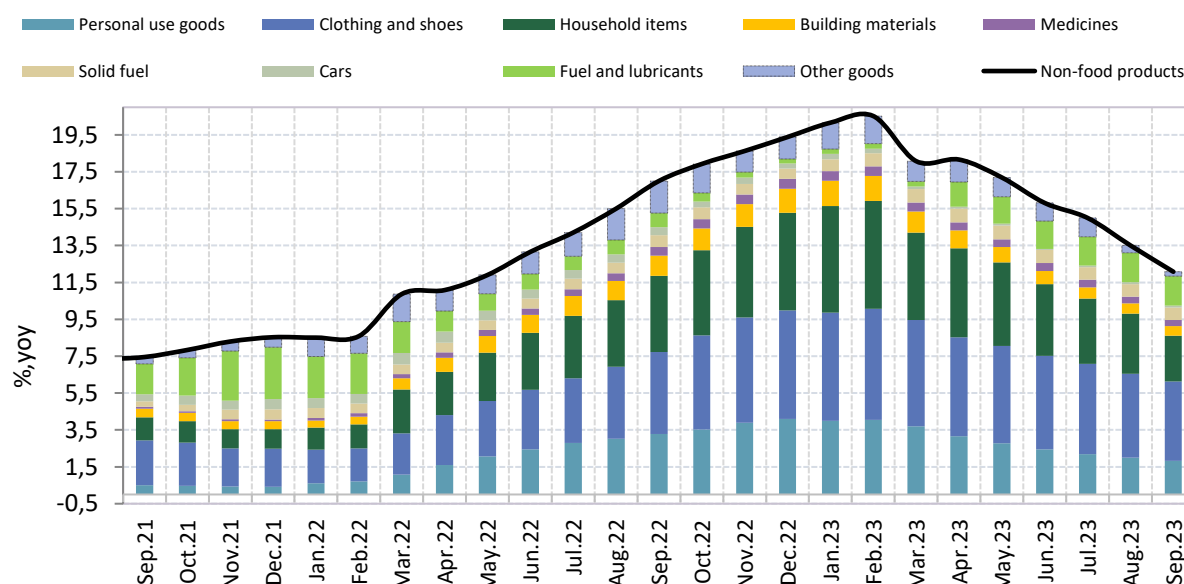
¹ The change in the corresponding indices since December 2019 (December 2019 = 100), taking into account the average monthly exchange rate of tenge to the US dollar.

World prices for vegetable oils decreased due to weakening import demand against the background of high supply volume from major exporters. A stronger decline in domestic prices for vegetable oil contributed to a decrease in the differential between domestic and foreign prices. The growth of world sugar prices continued amid uncertainty about the expected sugar production volumes in the 2023-2024 season.

The expansion of the differential between domestic and world prices for meat products continued in September of this year. An increase in the volume of export supply against the background of weak demand from the leading importing countries led to a decrease in world prices for meat products. However, it is worth noting that despite the slowdown in world meat prices, prices expressed in tenge showed an increase due to the weakening of the exchange rate of tenge against the US dollar in the second half of September this year.

In the structure of **non-food inflation**, there is a slowdown in the annual growth rates of the main commodity groups. At the same time, the contribution of fuels and lubricants to non-food inflation remains stable after its increase in April 2023 due to the increase in fuel prices as part of price deregulation in the domestic energy market (Graph 5).

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



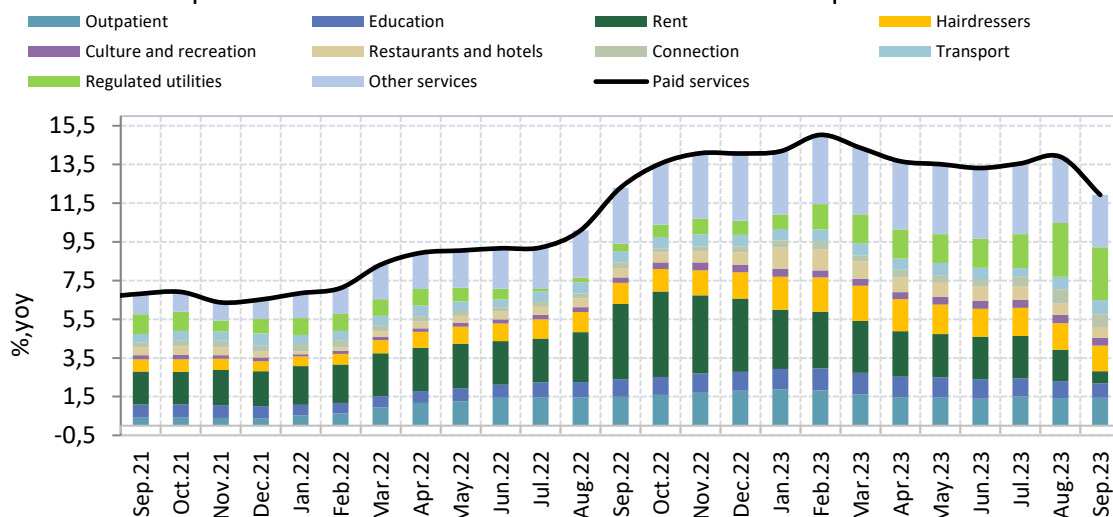
Source: BNS ASPR RK, calculations of the NB RK

In September, prices for non-food products increased by 0.6% on a monthly basis (August – 0.5%). There is an increase in the price of furniture and household items by 2.1% (15.3%, YoY). Due to the onset of the autumn season, there is an increase in prices for warm clothes and shoes. At the same time, the onset of cold weather increased seasonal demand for medicines, which led to an increase in prices for pharmaceutical products by 0.6% in September, annual growth slowed to 9.1% from 11.4% in June 2023.

Increased demand due to the start of the school year led growth in prices for information processing equipment in September, in particular laptops rose by 1.5% MoM (3.2% YoY), tablets – by 0.5% MoM (4.3% YoY), as well as recording devices and materials (by 1.1% MoM, 8.8% YoY).

The inflation of paid services to the population, after accelerating in July-August this year, showed a slowdown in September to 11.9% (in August – 13.9%), in monthly terms to 0.9% (in August – 1.9%) (Graph 6).

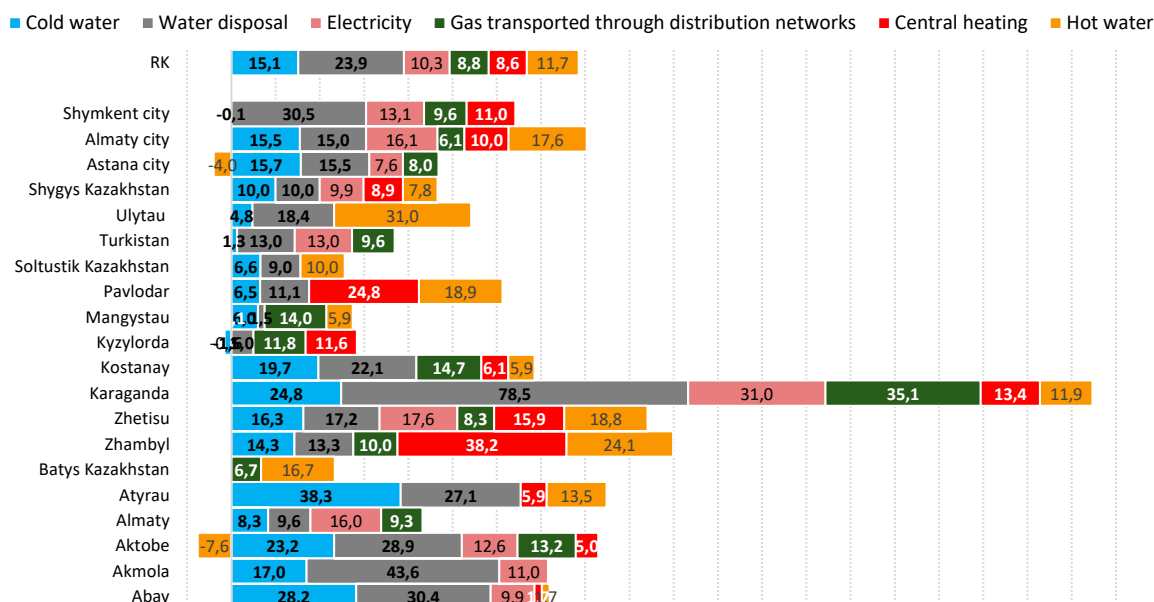
Graph 6. Contribution of services to the annual inflation of paid services



Source: BNS ASPR RK, calculations of the NB RK

In the structure of the service component of the CPI in September, the growth of tariffs for regulated utilities continued at 0.4%, but at a more moderate pace compared to last month (6.1% in August). The cost of hot water increased by 2.5% (MoM), sanitation – by 0.1%, gas supply – by 0.6%, electricity – by 0.4%, tariffs for cold water did not change. Regionally, there is heterogeneity in the increase in tariffs for regulated housing and communal services (Figure 7).

Graph 7. Growth of prices for regulated housing and communal services by region, January-September 2023, %



Source: BNS ASPR RK

In the structure of unregulated services for the population, there is a slowdown in the growth of prices for transport services in September to 0.1% MoM from 2.4% MoM in August. In August of this year, the fare for road passenger transport was increased in certain regions of the country. At the same time, the annual growth in the cost of transport services continued. The beginning of the school year caused an increase in prices for educational services. Thus, in September, secondary education services rose by 6.3% (8.2%, YoY), higher education – by 10.8% (13.5%, YoY). Rental housing prices has increased by 2.3% (MoM) as well. Meanwhile,

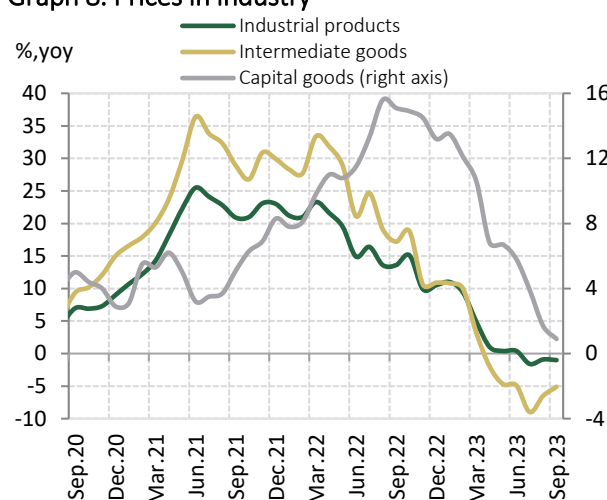
the annual growth in rental prices slowed to 7.3% in September from 18.6% in August this year against the background of the high base of last year.

Prices of manufacturing enterprises in the manufacturing industry continue to decline for the third month in a row as a result of a reduction in prices for intermediate goods and a slowdown in the growth of prices for capital goods.

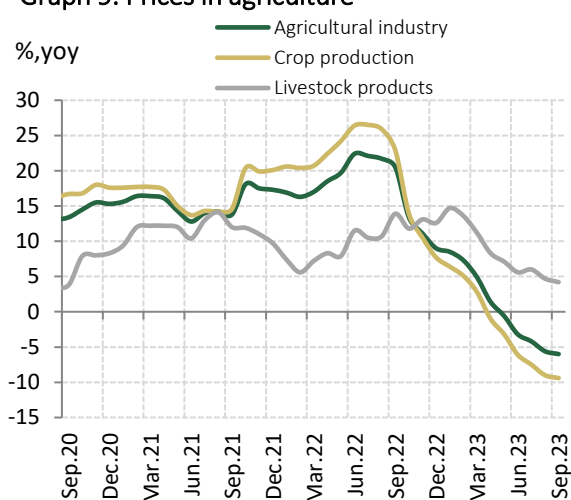
In September 2023, producer prices in agriculture continued to decline in annual terms against the background of a reduction in prices for grain and fodder crops, largely due to the high base of last year.

Producer prices in the manufacturing industry decreased by 1.0% YoY in September 2023. The reduction in prices was due to lower prices for intermediate goods. The growth of prices for industrial services and capital goods has slowed down (Graph 8).

Graph 8. Prices in industry



Graph 9. Prices in agriculture



Source: BNS ASPR RK

Prices of food producers have been showing a downward trend since September 2022. This September the prices of food producers decreased by 4.3% in annual terms. There is a reduction in the prices of producers of meat and flour-grain products, oils and fats. At the same time, there is a slowdown in the growth of prices of producers of dairy products and other food products as well as bakery and pasta products.

Among non-food products the price growth of manufacturers of pharmaceutical products, clothing, furniture, rubber and plastic products, detergents and cleaning products continues to slow down.

Producer prices in agriculture decreased in September 2023 by 6.0% in annual terms (Graph 9). In crop production, prices for grain crops continue to decline, namely wheat, oilseeds, as well as dried legume vegetables. The reduction in prices for grain crops is due to the high base of last year, as well as a reduction in costs against the background of subsidizing preferential diesel fuel by the state for farmers of the country. Among forage crops, the annual growth rates of prices for hay and feed grain are slowing down. In animal husbandry, the growth rates of prices for live cattle and cow's milk are slowing down, at the same time, the decline in prices for live poultry has slowed down.