



# PRICE BAROMETER

JULY 2022

Periodic research  
August 2022

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## Main conclusions



Annual inflation continued to rise in July and amounted to 15%. The increase in consumer inflation occurred due to the rise in the cost of food and non-food products



There is a slight softening of inflation pressure against the background of a global decline in prices for the main food groups. The current situation in the world food and energy markets reduces the likelihood of another acceleration of global inflation



World food prices decreased significantly compared to recent months – by 8.6% to 140.9 points in July. However, food prices are still higher than the values of the same period last year – by 13.1%



The realization of most of the risks that were noted by the IMF in April 2022 led to an increase in global inflation forecasts for developing countries to 9.5% (+0.8 p.p. compared to the April forecast) and a decrease in global economic growth forecasts to 3.2% (-0.4 p.p.)



We can see a slowdown in monthly inflation in all components compared to previous periods. However, the current level of monthly inflation in Kazakhstan (+1.1%) remains higher than in the same period of last years



High prices for consumer goods will have a restraining effect on the dynamics of consumer demand and shift its structure towards cheaper substitute goods

## Main conclusions



The food inflation level was 1.0% MoM (19.7% YoY). The slowdown in food inflation is provided by the disinflationary effect of the seasonal cheapening of vegetables and fruits, as well as a decrease in prices of agricultural producers against the background of the new harvest period coming



The ongoing geopolitical tensions and global monetary tightening, in conditions of high import dependence on domestic demand, have a pro-inflationary effect on the prices of non-food products through the exchange rate to domestic prices transfer effect



Despite the rise in the cost of energy sources in foreign markets, maintaining high growth rates of service inflation in terms of administrative restrictions creates space for imbalance accumulations. And this, in turn, may impact current expectations and future inflation.



A cautious monetary policy tightening creates conditions while the base rate can't keep pace with the actual level of inflation, which leads to a negative level of the real interest rate. As a result, monetary conditions continue to have a stimulating effect on demand growth



The continued annual inflation acceleration and the National Bank of the Republic of Kazakhstan's opinion that the peak of inflation has not yet passed create prerequisites for another base rate increase. Otherwise, in addition to general economic factors, non-anchored inflation expectations will increase the overall inflation.

World prices for food and energy resources declined in June due to a reduction in aggregate demand amid increasing risks of a global recession

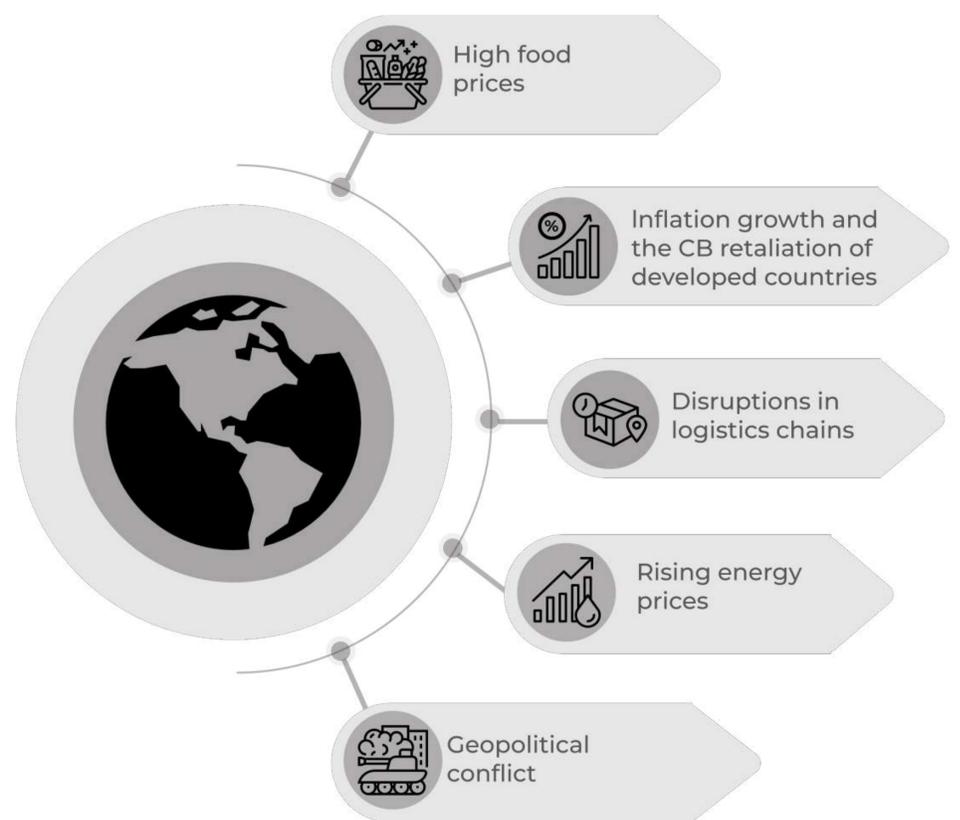
## Global trend

At the end of July, the IMF updated and raised global inflation forecasts. It is expected that in 2022 inflation in developed countries will reach 6.6%, and in developing countries – 9.5%, and will remain excessive for a long time.

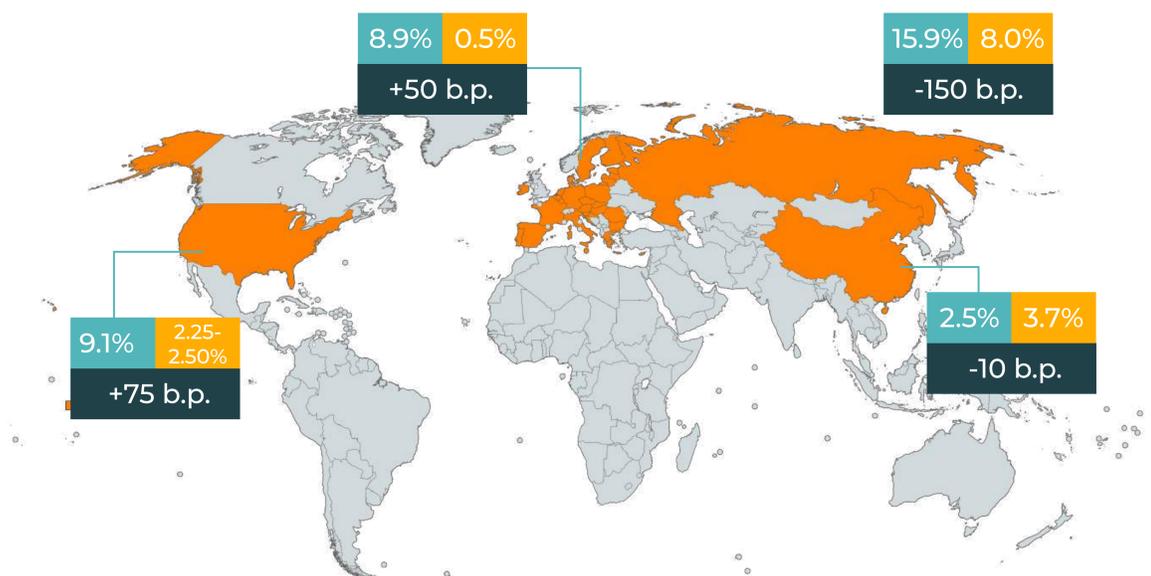
A reduction in global demand, upcoming harvest season in the Northern Hemisphere and the agreement reached between the conflicting Russia and Ukraine on unblocking the most important export ports pushed world food prices down.

The FAO Food Price Index continued to decline in July and reached 140.9 (154.2 in June) level. However, the current price level remains much higher than last year's data (by 13.1%): 124.6 in June 2021.

Weak forecasts for the further development of the world economy, weakening of the exchange rates of developing countries, and high prices carry risks for food security.



External factors of inflation



Current inflation level	Current level of the Central Bank base rate	The Central Bank base rate last adjustment
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The inflation level and the key rate of individual countries

Annual inflation in July reached a new historical maximum for the last 6 years – 15.0%

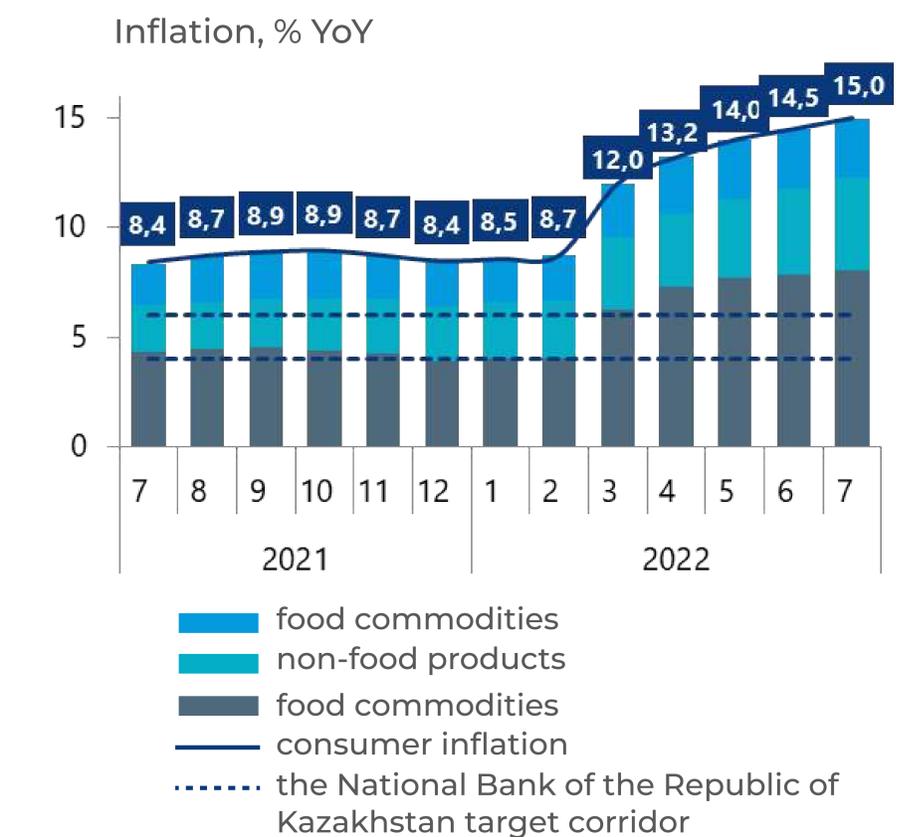
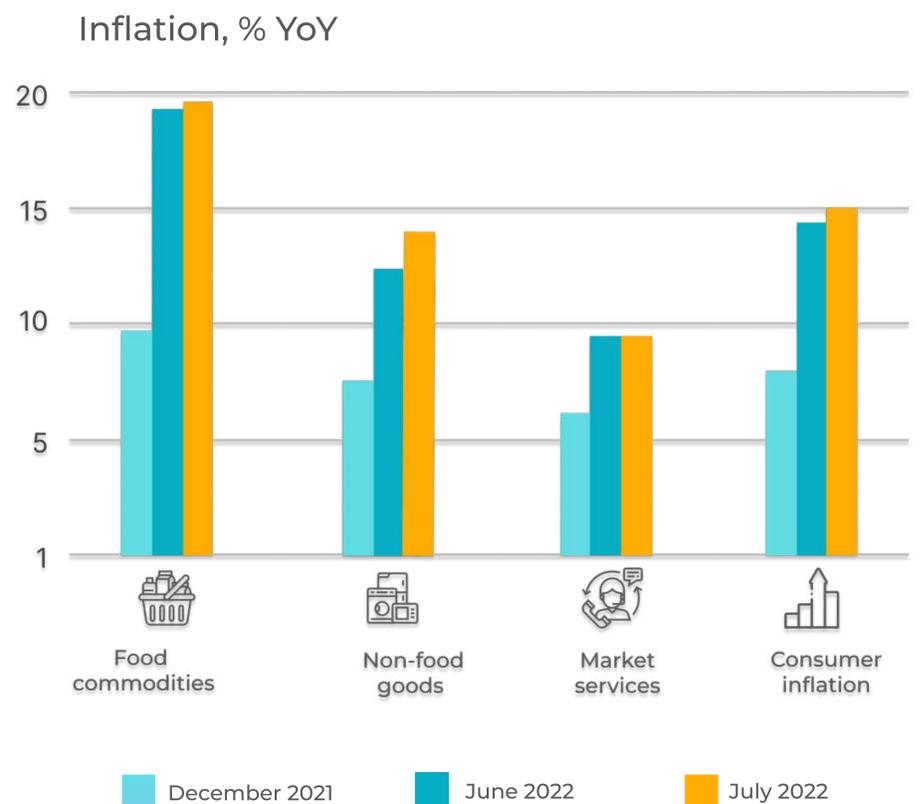
## Domestic inflation

According to the BNS, there is an increase in the near-term economic indicator by 4.5% (in June - by 5.7%) in followup of the first half of 2022, which is higher than the data for the same period in 2021. The inflation rate remains unfavourably high, and is expected to be so in the medium term.

**Consumer prices rose to 15.0% in per year terms in July, an increase of 0.5 p.p. compared to June. At the same time, we note signs of a slowdown in monthly inflation.**

The main component of the inflation growth continues to be food prices (19.7% YoY). Prices of non-food products have begun to be a highly influential force in recent years (14.2%). The cost of market services in July still maintains a high growth rate (9.2%).

This indicates that the previous monetary policy tightening is insufficient and the National Bank should probably continue the cycle of interest rate hike.



## The first signs of a slowdown in consumer inflation appeared in July

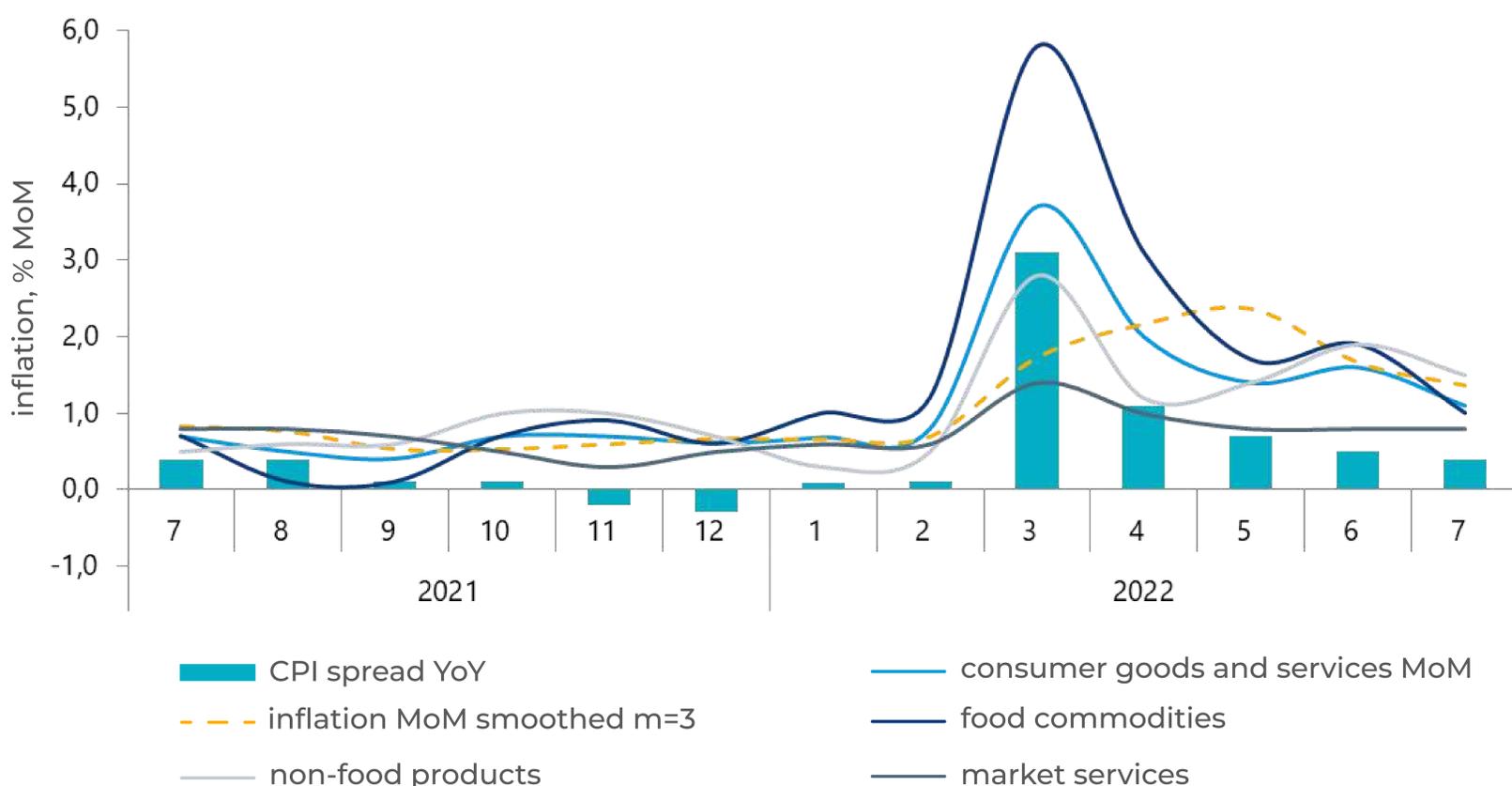
**Monthly inflation in July showed a slowdown and amounted to 1.1% (in June – 1.6%), but still remains quite high.** The expected seasonal decline in prices for fruits and vegetables and a slowdown in the growth of prices for some types of non-food products became a consumer inflation headwing.

Thus, food products in July increased by 1.0% (in June – by 1.9%).

Prices for non-food products increased by 1.5% (1.9%) over the month. The growth rate of prices for market services was relatively restrained and corresponded to last month's data - 0.8%.

The observed high prices for consumer goods will have a restraining effect on the dynamics of consumer demand and shift its structure towards cheaper substitute goods.

Dynamics of consumer inflation



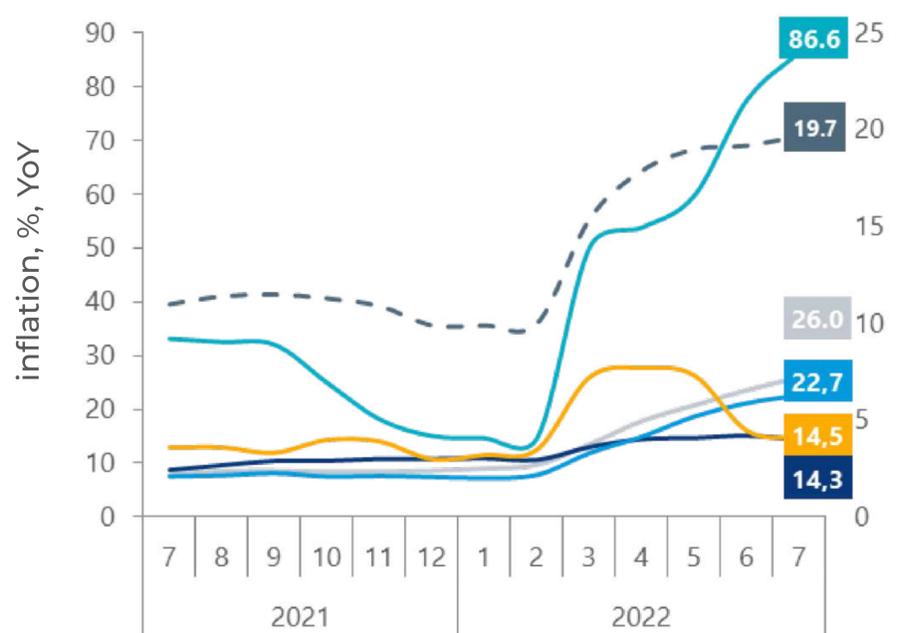
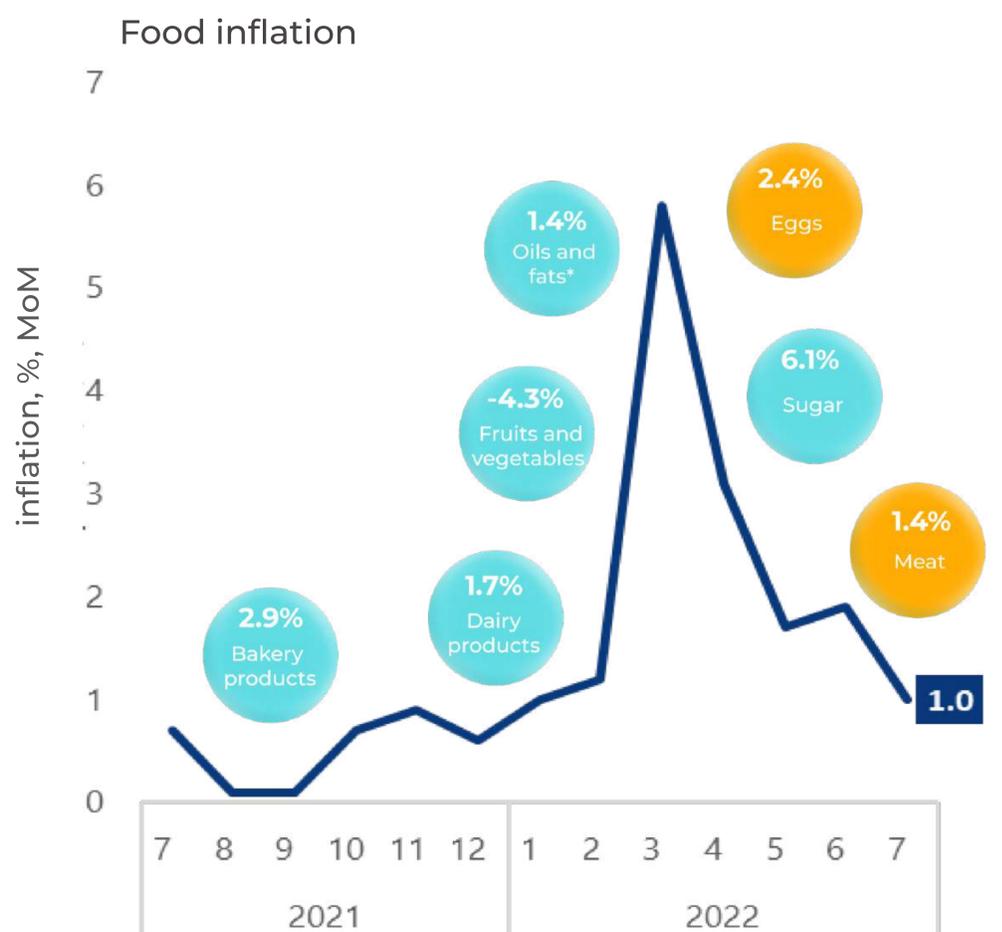
The current high level of food inflation is unwinding household inflation expectations

# Food inflation

Food prices continued to rise in July. However, we note a lower growth rate compared to the previous months. The level of food inflation was 1.0% MoM (19.7% YoY). The slowdown in the monthly food inflation level has passed through almost all food groups. The disinflationary effect was caused by the continuing since June seasonal decline in prices for vegetables and fruits.

The slowdown in prices for dairy and bakery products was promoted by a decrease in the price growth rate among agricultural producers against the background of the upcoming harvest season and the weakening of pressure from world food prices.

Sugar prices continue to grow faster – 6.1% (86% YoY) against the background of sugar shortage under the current restriction on sugar import from Russia (the restriction expires at the end of August).



- Bakery products and cereals
- Meat (including meat products)
- Dairy products
- Fruits and vegetables
- Sugar
- - - Food commodities (right axis)

\*Inflation in July (▼▲ compared to June 2022)

The ongoing geopolitical tensions and the global monetary tightening in the context of high import dependence on domestic demand have a pro-inflationary impact on the prices of non-food products

## Non-food inflation

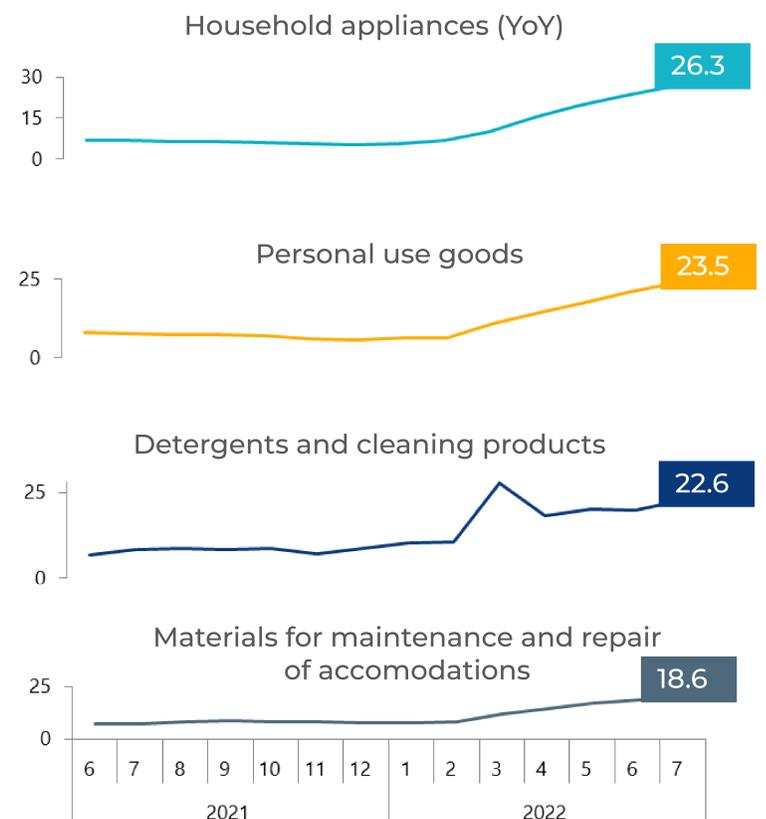
In July, the increase in prices for non-food products showed an acceleration and amounted to 1.5% (+14.2% YoY). For comparison, prices rose by 1.4% last month.

Due to the overwhelming share of imported goods in the structure of non-food consumption, the observed growth is associated with an increase of import prices.

Their growth is influenced by external inflationary pressure, the weakening of the tenge exchange rate (1.4% in July) and a significant increase in freight tariffs (1.9% in July).

Government restrictions on gasoline and diesel fuel prices contribute to a more restrained price increase for all consumer goods and services. In the second half of July, this restriction was extended for the next 180 days.

### Dynamics of non-food inflation



Despite the rise in the cost of energy sources in foreign markets, maintaining high growth rates of service inflation with administrative restrictions creates space for imbalance accumulations that may affect future inflation.

## Inflation of market services

Prices increased by 0.8% (9.2% YoY) in the field of market services over the month.

A significant increase in value for June was noted in:

- railway services 15.9% (19.0%) and air carriers by 15.9% (26.6%),
- mass catering services- 1.6% (16.8%).
- restaurant and hotel services – 1.5% (16.6%),

- hairdressing and personal services – 1.5% (13.0%).

The main drivers of service inflation growth in July remained the same as a month earlier.

The increase in prices of most activities of market services is explained by increased consumer demand against the background of a temporary factor – the summer vacation period.

### Dynamics of service inflation

Rail transport (MoM)



Air carrier



Mass catering services



Restaurants and hotels



Hairdressing and personal service public places



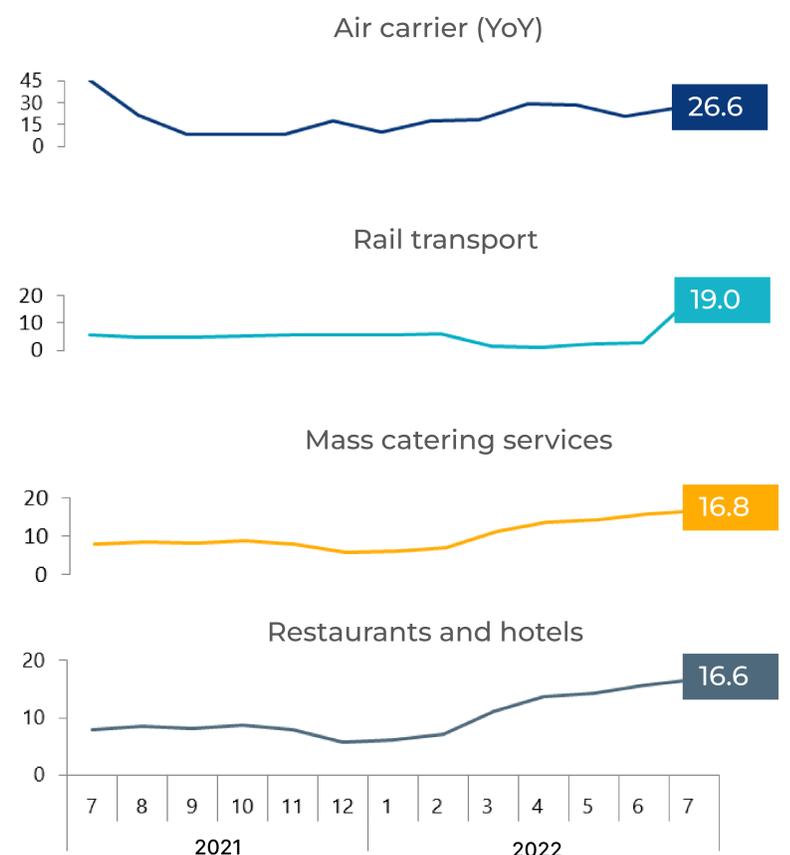
Sanatorium services



Education



Hot water



## The dynamics of inflationary processes in annual terms by region was uneven

### Regional inflation

In July 2022, there was an acceleration in the annual inflation rate in most regions and cities of national status.

The maximum acceleration took place in Atyrau (+1.9%), Abai (+1.2%), and East Kazakhstan regions (+1.3%). There was a significant slowdown in annual inflation (-0.9%) in Almaty region, and the slowdown was less noticeable in Karaganda and Zhetysu regions (-0.2% and -0.1%, respectively).

The maximum monthly price increase was recorded in:

- Atyrau region – 2.1%,
- Pavlodar region – 1.7%,
- East Kazakhstan region – 1.6%.

The lowest level of inflation is noted in:

- Almaty region – 0.5%,
- Turkestan region – 0.7%
- Zhetysu, Karaganda regions and Almaty city – 0.9%

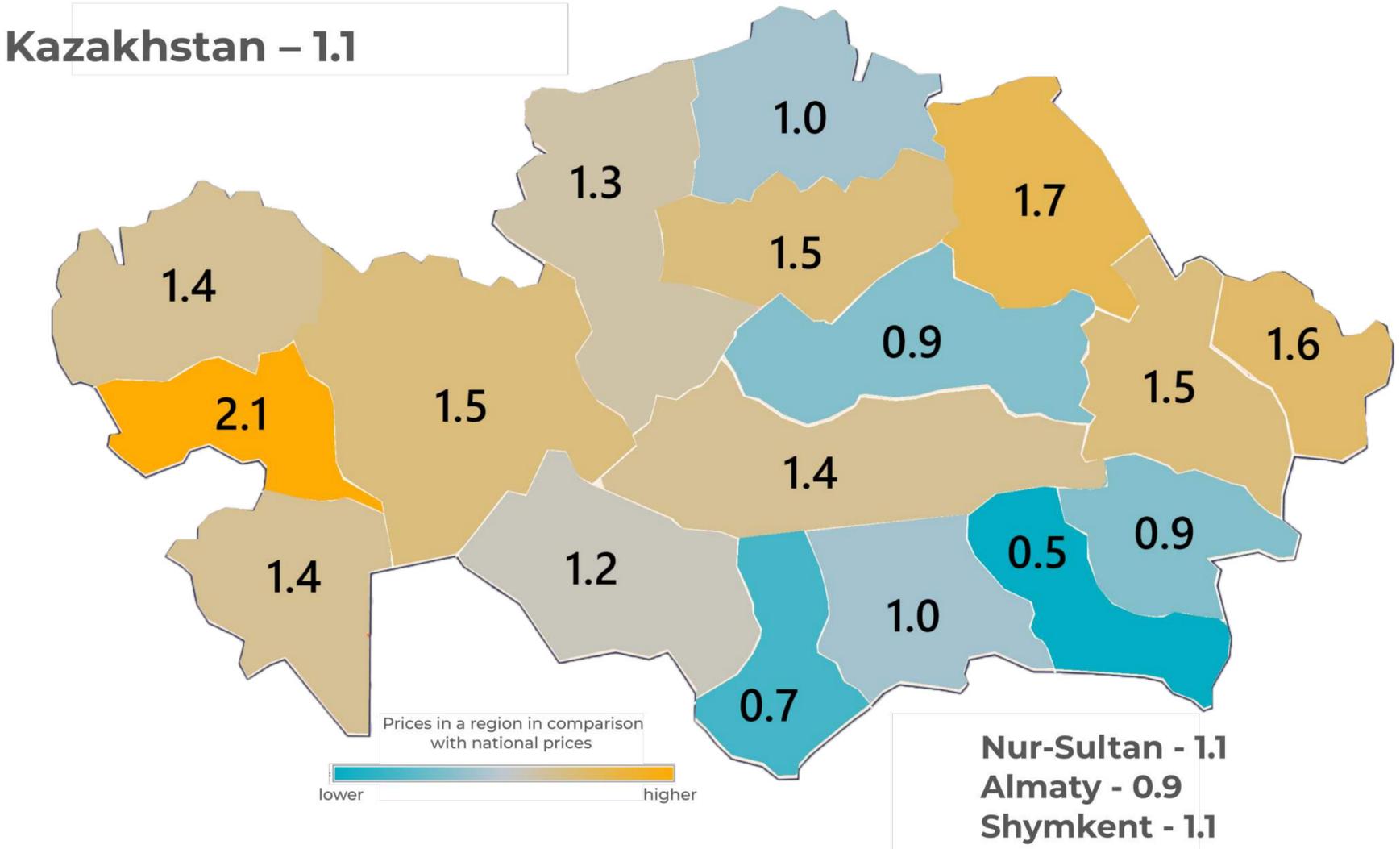
There was a slowdown in food inflation in annual terms in Almaty (-1.2%), Ulytau and Turkestan regions (-0.8% and -0.7%, respectively).

The growth of food inflation exceeding last month's data was observed in Abai (+2.2%), East Kazakhstan (+1.8%), Pavlodar and Atyrau regions (+1.4%).

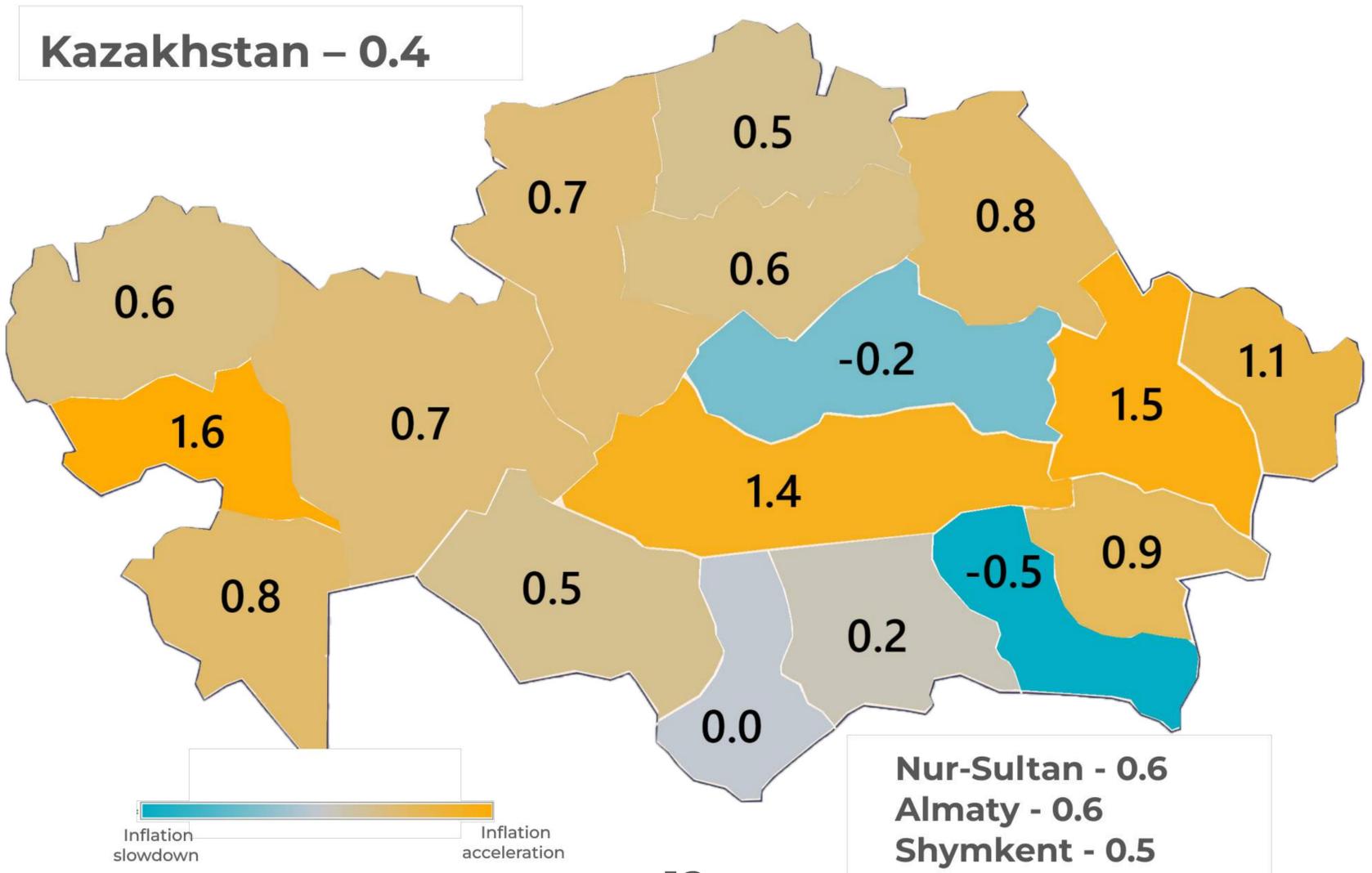
Prices for non-food products accelerated over the month in all regions from 0.2% to 3.7%, except for Almaty region (-0.2%).

Prices for market services accelerated the most in Atyrau region (+2.5%). At the same time, there was a slowdown in annual service inflation in half of the regions. Prices for market services remained at the level of June 2022 in Turkestan and Abai regions.

**Consumer inflation by regions, %, MoM**



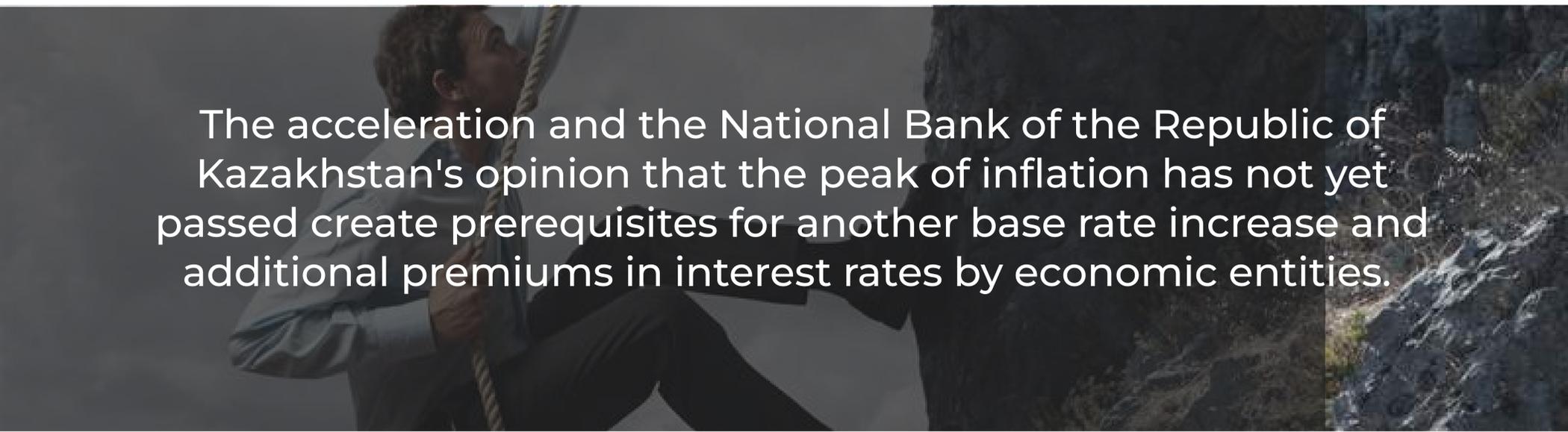
**The difference in the monthly inflation increase in June 2022 and June 2021, p.p.**



Region	Goods and services		Food commodities		Non-food goods		Market services	
	YoY	MoM	YoY	MoM	YoY	MoM	YoY	MoM
<b>the Republic of Kazakhstan</b>	15.0	1.1	19.7	1.0	14.2	1.5	9.2	0.8
Abai	15.5	1.5	19.0	1.7	15.4	1.5	10.7	1.2
Akmola	16.0	1.5	20.8	1.9	15.3	1.2	9.7	1.3
Aktobe	15.4	1.5	22.4	1.5	14.0	2.3	6.7	0.8
Almaty	13.4	0.5	18.0	0.4	12.5	0.9	7.7	0.2
Atyrau	16.0	2.1	21.5	1.6	15.8	2.2	8.5	2.8
West Kazakhstan	15.0	1.4	19.2	1.2	13.8	1.8	10.2	1.3
Zhambyl	14.0	1.0	20.2	1.0	12.6	1.3	6.7	0.6
Zhetysu	14.9	0.9	19.7	0.8	14.6	1.3	8.3	0.7
Karaganda	15.3	0.9	18.5	1.1	15.6	0.9	10.5	0.7
Kostanay	15.0	1.3	20.0	1.3	13.9	1.7	8.7	0.9
Kyzylorda	14.7	1.2	18.9	1.3	14.4	1.5	8.9	0.8
Mangystau	17.9	1.4	24.0	1.4	16.2	1.4	11.0	1.6
Pavlodar	14.7	1.7	19.7	2.0	14.2	2.0	8.1	0.8
North Kazakhstan	14.8	1.0	19.9	1.1	14.0	0.9	8.3	1.0
Turkestan	15.7	0.7	20.3	0.4	13.3	1.1	11.4	0.7
Ulytau	15.7	1.4	18.0	0.4	18.5	4.1	9.4	0.2
East Kazakhstan	15.6	1.6	18.3	1.5	16.0	2.4	11.2	0.9
Nur-Sultan city	15.3	1.1	18.0	0.7	18.5	2.2	8.0	0.6
Almaty city	14.9	0.9	20.5	0.9	12.3	1.2	9.5	0.6
Shymkent city	14.4	1.1	19.3	1.0	12.4	1.6	9.4	0.8

Prices in a region in comparison with national prices



A man in a light-colored shirt and dark suit is climbing a rope against a dark, textured background. The text is overlaid on the right side of the image.

The acceleration and the National Bank of the Republic of Kazakhstan's opinion that the peak of inflation has not yet passed create prerequisites for another base rate increase and additional premiums in interest rates by economic entities.

## Risks and prospects

There is a slight softening of inflation pressure against the background of a global decline in prices for the main food groups. The current situation in the world food and energy markets reduces the likelihood of another wave of global inflation acceleration.

The realization of most of the risks that were noted by the IMF in April 2022 led to an increase in global inflation forecasts for developing countries to 9.5% (+0.8 p.p. compared to the April forecast) and a decrease in global economic growth forecasts to 3.2% (-0.4 p.p.)

Sufficiently high domestic prices for consumer goods will have a restraining effect on the dynamics of consumer demand and shift its structure towards cheaper goods.

The ongoing geopolitical tensions and the global monetary tightening have a pro-inflationary impact on the prices of non-food products. This is due to the high import dependence on domestic demand and through the exchange rate to domestic prices transfer effect

Despite the rise in the cost of energy in foreign markets, maintaining high growth rates of service inflation under non-monetary measures of the state to control inflation creates space for the accumulation of imbalances that can impact the trajectory of future inflation.

The trajectory of the base rate increase has not yet kept pace with the inflation growth, which leads to periodic negative rates in the economy. Such monetary terms do not create significant prerequisites for reducing the inflation contribution from the demand and lending.

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