



February 2023

# Price barometer

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## Risks and prospects

Global inflation remains high, although it has probably already passed its peak in most developed countries. The IMF experts expect that the inflationary environment will improve in 2023, even if core inflation, which does not include more volatile energy and food prices, has not yet peaked in many countries. At the same time, a geopolitical turbulence factor causes risks of a long period of increased inflation.

Following our baseline scenario, the internal inflationary pressure will weaken in 1 year but will remain significantly above the NBK target. This is due to several factors. The long-term maintenance by the regulator of restraining monetary conditions is already showing its effect on weakening consumer demand, slowing price growth and reducing inflation expectations of economic agents. And the increase in wages at the beginning of the year, the indexation of pensions and benefits, and the next fiscal impulse restrain the decline in real incomes as well as all of these complicate the possibilities of managing inflationary risks.

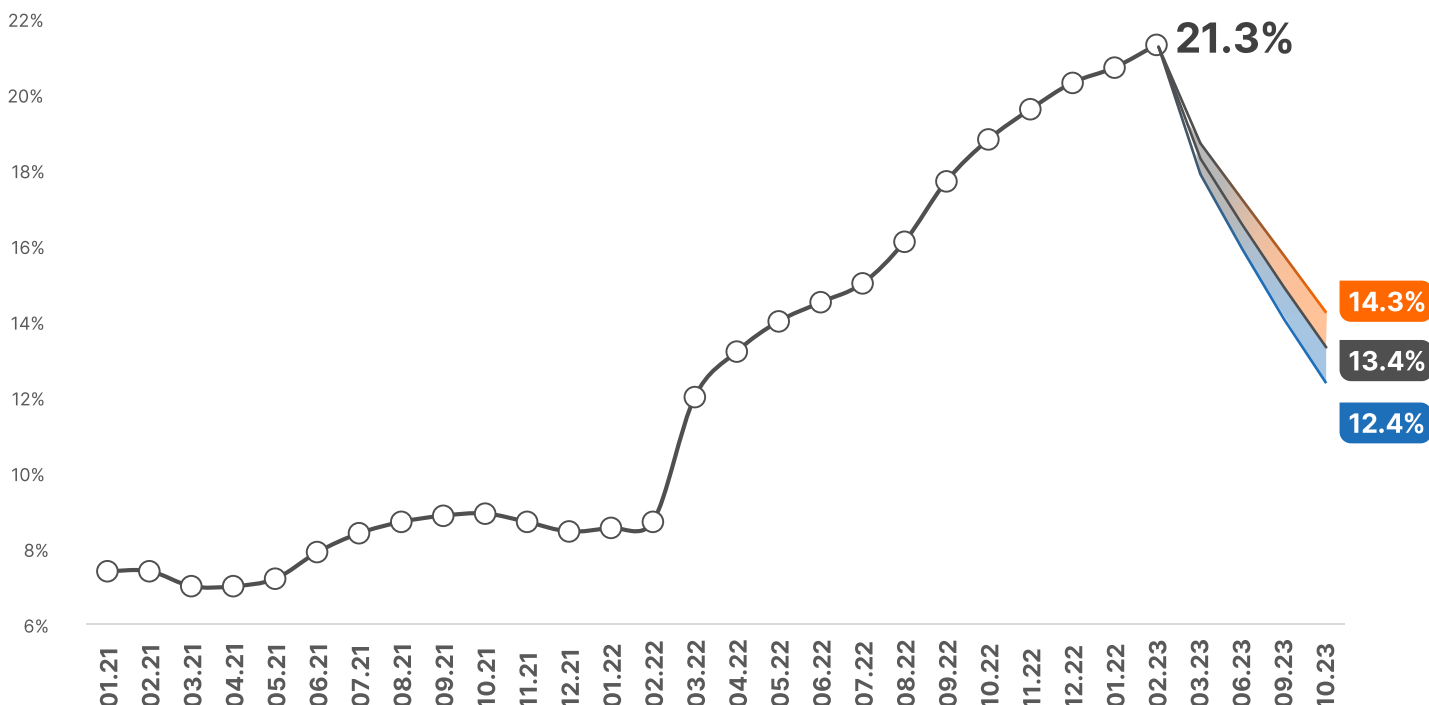
An additional stabilizing contribution is made by the exchange rate dynamics of the tenge, which allows it to restrain the risk-taking of inflation growth through the cost of imported goods and limits the possible increase in the volatility of inflation expectations.

The expansion of fiscal stimulus due to the revision of the transfer volume from the National Fund, which contributes to the consumer demand expansion, has caused a change in our estimates of the prospects for economic growth. Thus, the updated forecasts assume a GDP growth of 4.0- 4.5% in 2023 and a 3.1% of the output gap. Inflation will enter a downward trajectory and will be at a 12.4–14.3% level by the end of the year. And monetary conditions as a whole will remain close to neutral.

The observed degree of heterogeneity of the response of inflationary processes in response to monetary policy shocks, unstable inflationary expectations and high pro-inflationary risks determine our expectations for a further smooth reduction of the NBK base rate.

### Jusan Analytics forecasts on consumer price growth

(in %, YoY)

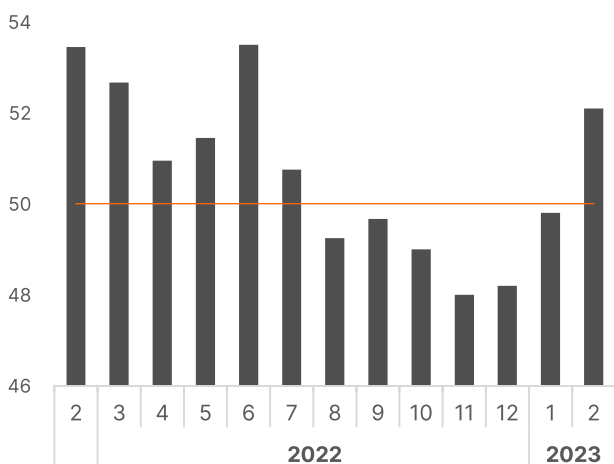




## Global trend

The global inflation background is normalizing slower than expected. There is a gradual revival of economic activity, a decline in world prices for agricultural products and the restoration of global production and logistics chains. The easing of restrictions on the aggregate supply side serves as a factor in the gradual cooling of the inflationary environment. At the same time, unstable and elevated inflation expectations, as well as steady consumer demand, suggest that we should not expect a rapid decline in price pressure.

### PMI composite



Source: J.P. Morgan, S&P Global

After a six-month decline in the Global Composite PMI by the end of February, it reached 52.1 points and entered the "green zone". The factors of the revival of business activity in the world were the service sector and the expansion of global production. There is also a slower growth in production costs, so the rate of increase has been minimal over the past 2 years.

The FAO Price Index continues to decline, its average value has dropped to 129.8 points. The decrease in the Index is associated with cheaper vegetable oils and dairy products. At the same time, food inflation in many countries remains abnormally high despite the decline in world prices.

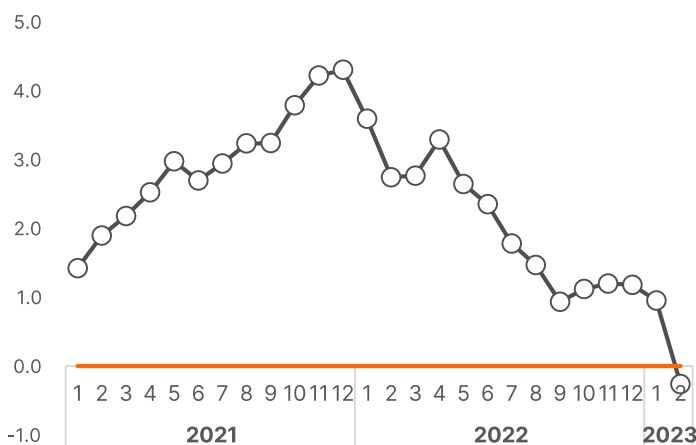
Consumer price growth in the EU and the US is slowing down weaker than market expectations. Moreover, the basic indicators of price growth have practically not

changed and are weakly amenable to restrictive monetary measures. These data create concern among regulators and contribute to the expectations growth for the continuation of the previously aggressive course in monetary policy.

And the business activity is improving in China, which is its first recovery since mid-2022. The economic recovery in China contributes to the global production and logistics chains improvement, as well as the simultaneous increase in the volatility of commodity markets. At the same time, consumer inflation in China began to accelerate due to the food and non-food components. The Chinese regulator assesses the overall inflationary pressure as manageable and moderate, which gives it more opportunities for the monetary policy tools used to support the economic recovery.

### Supply Chain Pressure Index

(number of standard deviations from the average)



Source: [www.newyorkfed.org](http://www.newyorkfed.org)

The improvement in delivery times in the European region contributed to the global pressure on supply chain rehabilitation. So, the Index dropped to negative values for the first time since mid-2019. Faster and easier movement of goods can help to reduce global inflationary pressures. These data raise concerns about the reasons for the observed decrease in supply pressure, primarily about aggregate demand, the decline of which would explain the acceleration of delivery times to the EU due to the consumer activity falling.



## Domestic inflation

**The annual increase in consumer prices was 21.3% (1.3% MoM) in February 2023. The price index was characterized by heterogeneity in the speed and direction of the main components:**

- **Food commodities** – 26.2% (1.5% MoM vs. 1.4% a month earlier);
- **Non-food goods** – 20.5% (0.8% vs. 0.9%);
- **Market services** – 15.0% (1.3% vs. 0.7%).












According to the NBK, median inflation household expectations fell sharply to 14.2%, and the expectations of business representatives increased from 11.2% to 11.8%. But following the AFC, it decreased from 13.5% to 13.3%. The decrease in inflation household expectations was also due to a significant strengthening of the tenge against foreign currencies, which should reduce the cost of imported components of the consumer basket.

As an indicator of the sustainability of price growth, the core inflation rate still grows and has reached 23.1%. Given the high level of core inflation, the trend towards disinflation expected from March 2023 may have a more limited contribution than previously expected. The revision of budget expenditures in mid-March, including the expansion of social spending, is likely to help compensate for the previously lost household purchasing power, and thereby restrain the amplitude of the future inflation decline.

The previous increase in wages and minimum wage contributes to the correction of the dynamics of real wages from (-12.3%) to (-10.8%), and the indicators of physical volumes in domestic trade are improving, so they cause additional inflationary pressure.

## CPI inflation and inflation expectations for the next 12 months

(in %, YoY)

Year	Month	CPI inflation YoY	YoY including weights			Inflation expectations by		
			Food	Non-food goods	Market services	NBK	AFK	JA*
2021	February	 8.7	4.1	2.6	2.1	6.2	8.3	19.6
2022	March	 12.0	6.3	3.3	2.4	11.4	8.7	19.7
	April	 13.2	7.3	3.3	2.6	11.4	9.4	19.2
	May	 14.0	7.7	3.6	2.7	13.8	11.7	18.8
	June	 14.5	7.8	4.0	2.7	14.9	10.3	18.3
	July	 15.0	8.0	4.3	2.7	16.5	11.9	17.7
	August	 16.1	8.5	4.7	2.9	16.5	11.7	17.1
	September	 17.7	9.0	5.1	3.6	16.9	12.5	16.5
	October	 18.8	9.4	5.4	3.9	18.3	12.9	16.1
	November	 19.6	9.8	5.6	4.1	18.2	13.9	15.8
	December	 20.3	10.3	5.9	4.1	21.3	14.3	15.4
	January	 20.7	10.6	6.1	4.0	17.3	13.5	15.0
2023	February	 21.3	10.7	6.2	4.4	14.2	13.3	14.2

\* Expectations are calculated as a weighted value of the price growth actual level in period t and Jusan Analytics forecasts for inflation in period t+1

Source: Bureau of National Statistics of the Republic of Kazakhstan, Jusan Analytics calculations, AFK, NBK

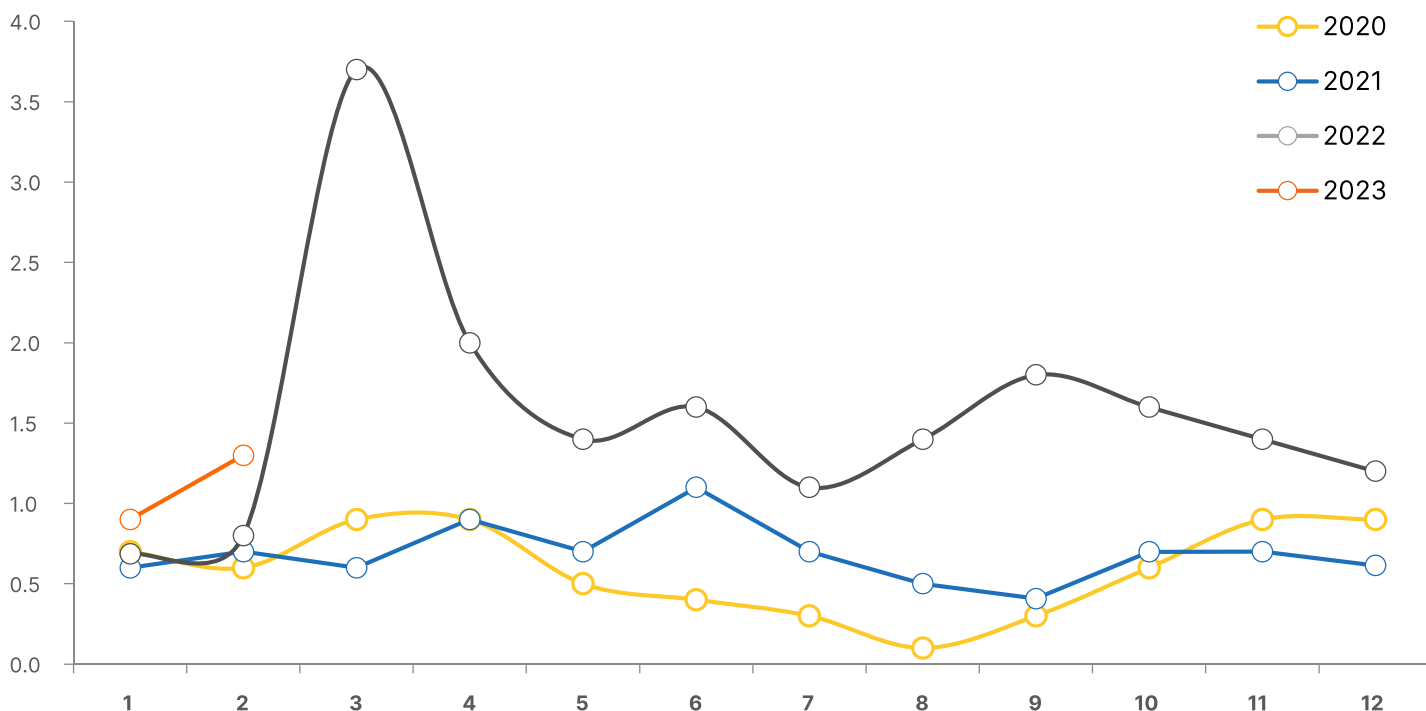


## Domestic inflation

### CPI inflation

(in %, MoM)

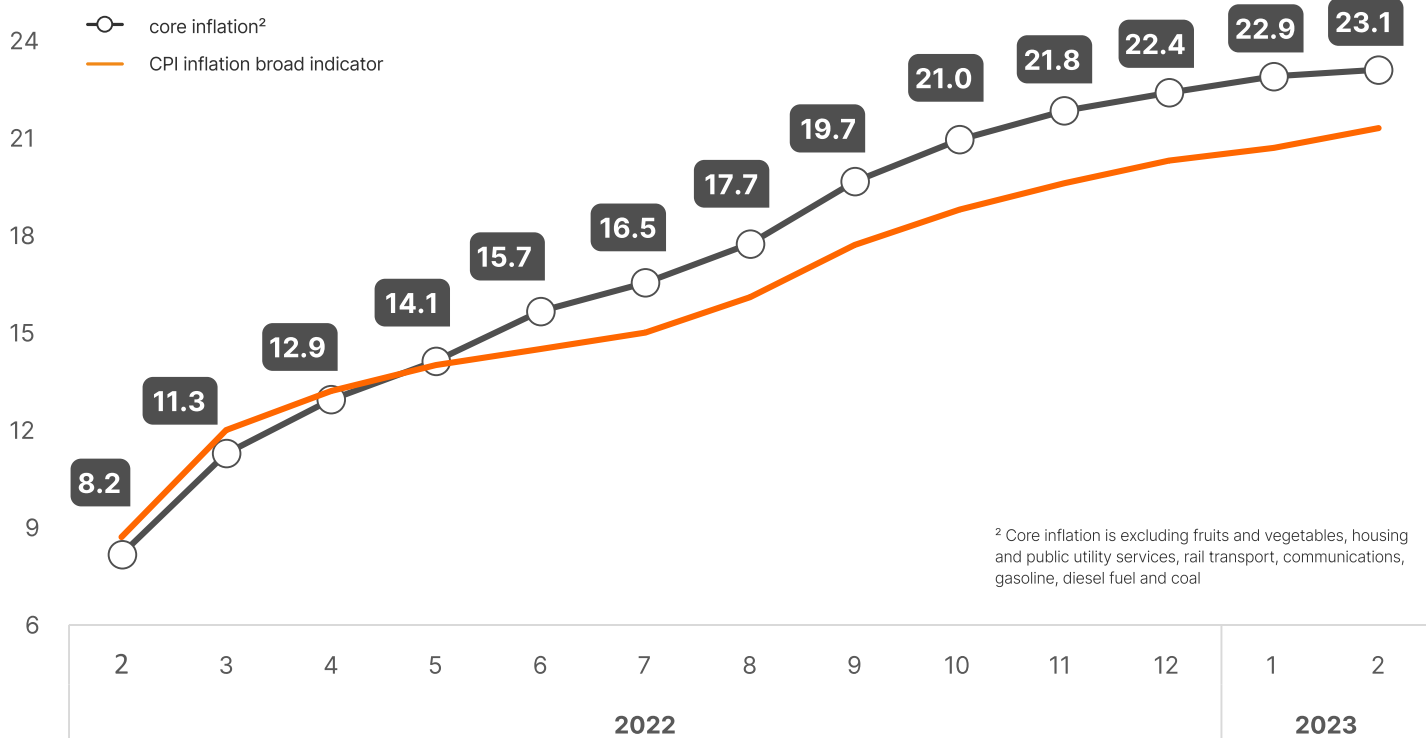
Source: Bureau of National Statistics of the Republic of Kazakhstan



### Core inflation<sup>2</sup>

(in %, YoY)

Source: Bureau of National Statistics of the Republic of Kazakhstan





## Domestic inflation

**The annual growth rates of consumer goods prices continue to accelerate. The contribution of food inflation to total inflation was 10.7% in February (0.6% MoM), and non-food - 6.2% (0.2% MoM).**

The growth rates of prices for dairy products, fish and seafood, eggs, oils and fats, as well as fruits and vegetables, started to accelerate in annualized and monthly terms. And prices of other subgroups of food products continue to slow down but at a much slower rate. The cold snap in the southern regions of Kazakhstan and the loss of the harvest affected the growth in the cost of fruit and vegetable products. There was an increase in the gap between internal and external prices for vegetable oils and fats, as well as dairy products in February.

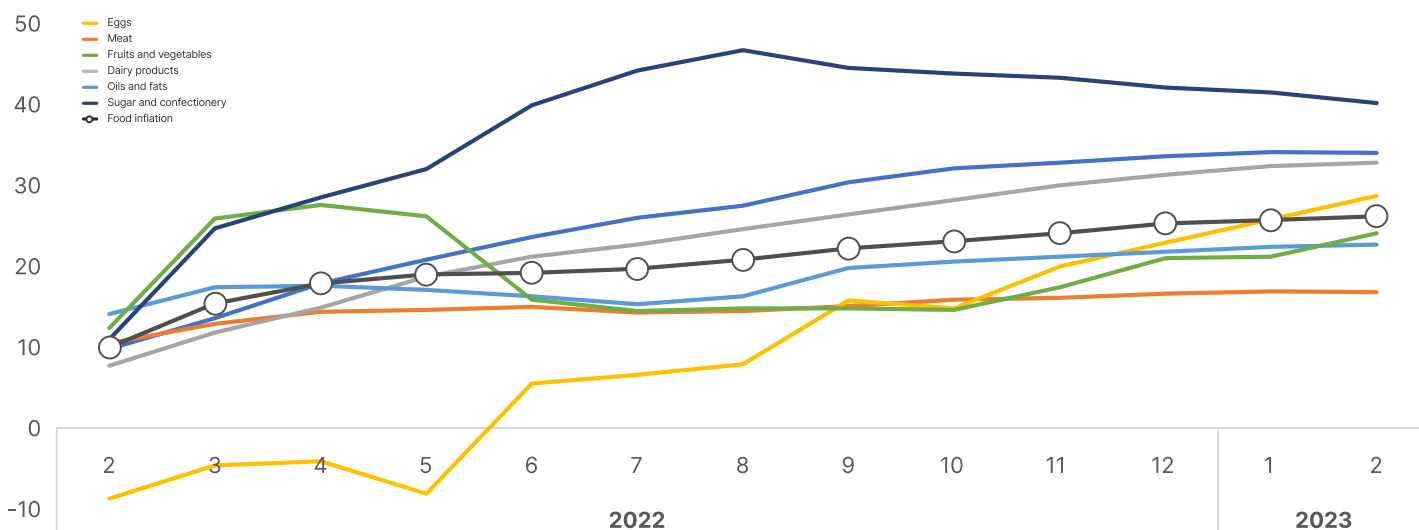
Domestic ones are growing due to rising costs, while external ones are declining due to low global demand.

The growth rates of prices for non-food products in monthly terms show a slowdown, while the heterogeneity in the rates of price changes for these types of goods has begun to manifest itself more strongly.

The slowdown in the growth rates of prices for household chemicals, coal, cars, books and office supplies, and personal goods offset the acceleration impact of prices for shoes, liquefied gas, furniture, household appliances and medicines on the overall indicators of non-food inflation.

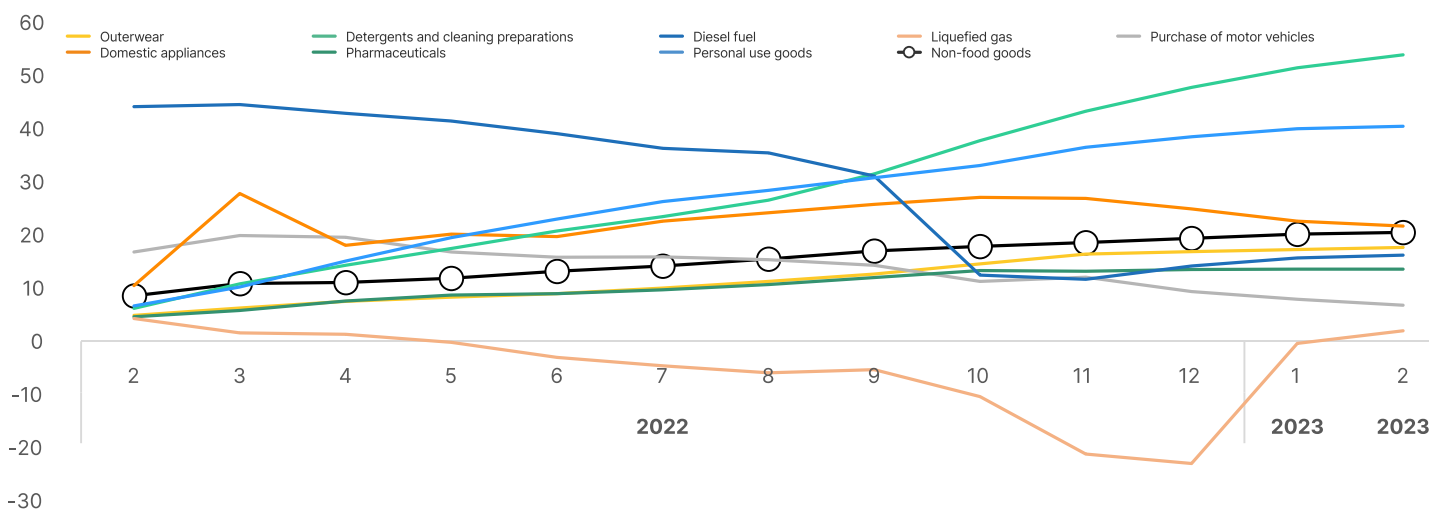
### Dynamics of food inflation

(in %, YoY)



### Dynamics of non-food inflation

(in %, YoY)





## Domestic inflation: services

Service inflation has started to accelerate again, while the directional heterogeneity of price movement continues to grow. And given the contribution to the overall level of consumer price growth, service inflation provided 4.4% (0.4% MoM) growth. The observed growth rates of the market services cost are several times higher than the previous months, which serves as a factor of increased overall inflation in the coming months, despite the high base effect.

In February, the main triggers of service inflation growth were services of natural monopolies, including all types of housing and utility services (due to the announced indexation of tariffs for the modernization and repair of utility networks and the release of pricing of services from state control) and passenger transport (mainly rail and air) due to the transfer of prices for energy and products meals

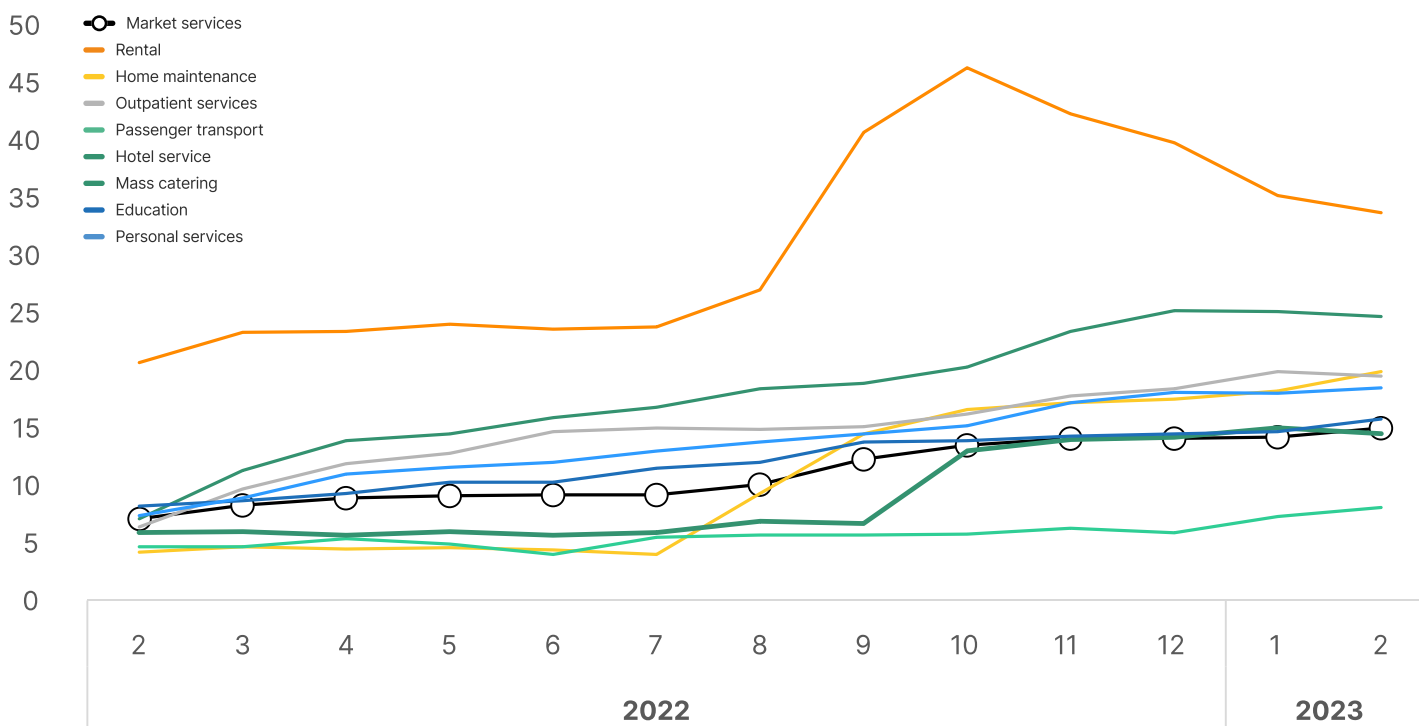
included in the airfare. At the same time, the prices of other kinds of market services that are more sensitive to consumer demand activity (cultural and entertainment services) continue to slow down. For example, the cost of catering services growth rate is slowing down despite the increase in the food prices growth rate.

The growth rates of the cost of personal vehicle maintenance and repair are accelerating due to the observed increase in the cost of spare parts and accessories for cars, which are often included in the assessment of changes in the cost of these types of services.

### Dynamics of service inflation

(in %, YoY)

Source: Bureau of National Statistics of the Republic of Kazakhstan





## Regional inflation

**Annual inflation by regions was in the range of 19.3-25.1%. The upper bound of the regional inflation range has shifted upwards more strongly, while the lower one, on the contrary, tends closer to the average value of consumer inflation in Kazakhstan, which corresponds to an increase in regional inflationary pressure.**

The maximum annual increase in consumer prices continues to take place in Mangystau region due to a record increase in food prices and market services in the country, as well as in the capital city due to the fastest growth of nonfood products. The minimum is observed in Almaty and Atyrau regions, where the growth rates of the consumer goods and services cost are below the national average.

The maximum regional variation in the price growth rate continues to persist in non-food inflation due to a significant gap in the price increase in Astana city. The rates of price growth are decreasing in annual terms in Kyzylorda, Abai regions and Astana city.

In the capital city, this is due to a decrease in the growth rate of prices for non-food products and due to a slowdown in the growth rate of prices for market services in the named above regions.

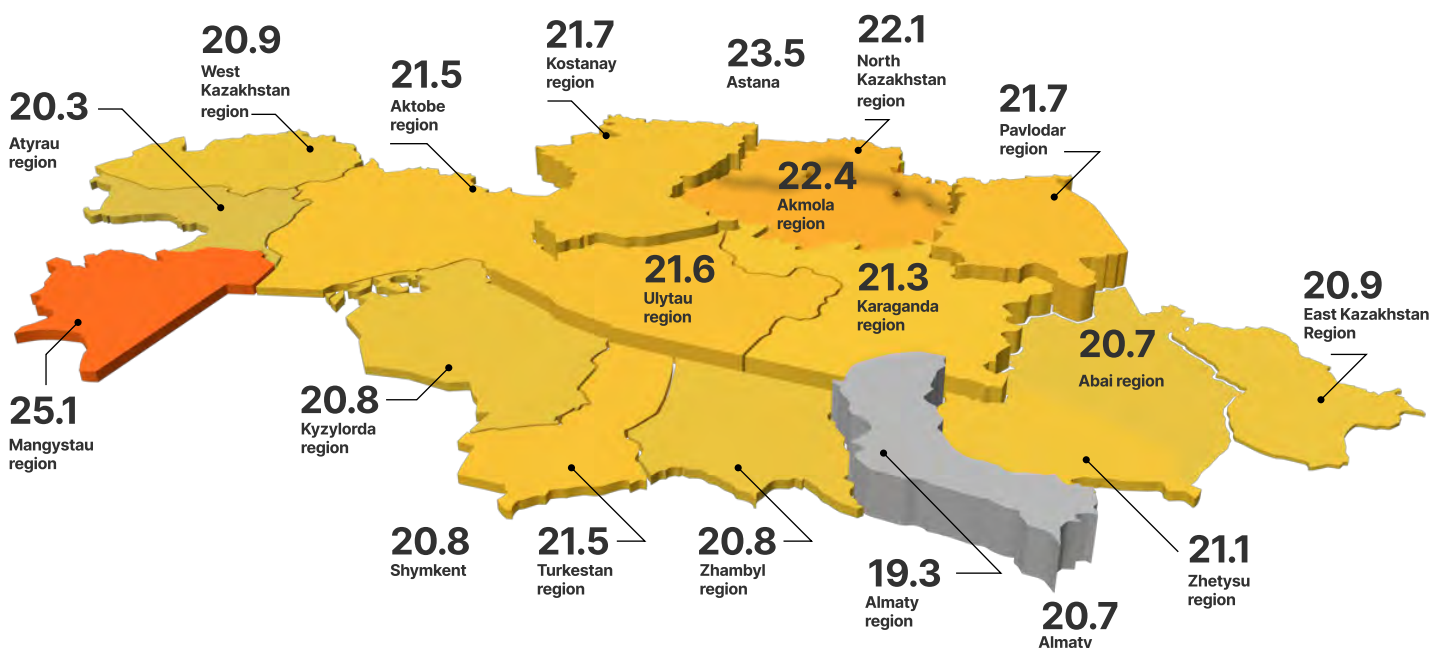
And in other regions, consumer prices are showing an acceleration. The record holders in this direction are Almaty, Pavlodar and Kostanay regions. Acceleration factors are simultaneously all components of consumer inflation.

## CPI inflation by regions

(February 2023 results, in %)

Source: Bureau of National Statistics of the Republic of Kazakhstan

Republic Of Kazakhstan: **21.3**



Prices in a region in comparison with national prices

Lower



Higher

\* The height of the region shows the change in the inflation growth rate relative to the previous period\*



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