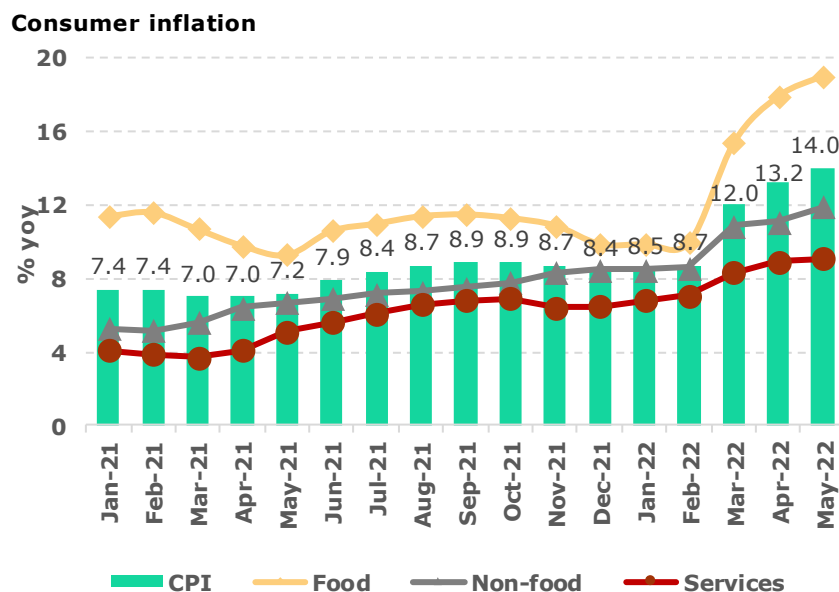


June 2, 2022

In May, consumer inflation slowed down for the second consecutive month and amounted to 1.4% mom, after 2% mom in April and 3.7% mom in March. At the same time, due to effect of last year's low base, annual inflation accelerated to 14% from 13.2% in April. The main impact on the slowdown of the growth of consumer prices was provided by food products and paid services, while the growth rate of prices for non-food products accelerated. We expect a further slowdown of consumer prices growth in the coming months, which will help bring annual inflation below 14%.

According to the Bureau of National Statistics, consumer inflation slowed to 1.4% mom in May (+3.7% mom in March; +2% mom in April). In annual terms, the growth of consumer inflation amounted to 14% yoy (13.2% yoy in April). Against the background of last year's low base, the consumer price index in annual terms demonstrates an upward trend for the fifth month in a row.

The dynamics of annual price growth accelerated across all components of consumer inflation – food products rose in price by 19% yoy (+17.9% yoy in April), non-food products – by 11.9% yoy (+11.1% yoy in April), and paid services – by 9.1% yoy (+8.9% yoy in April).



Source: BNS, Halyk Finance

In May, food prices rose by 1.7% mom, making a 0.7pp contribution to the overall consumer inflation. In particular, rose such food products as flour (+6.8% mom), sugar (+5.7% mom), dairy products (+3.9% mom), cereals (+2.7% mom) and bread (+2.1% mom).

Prices for non-food products increased by 1.4% mom in May, providing a 0.4pp contribution to the overall consumer inflation. Prices for personal goods went up noticeably (+4.3% mom), detergents and cleaners (+3.7% mom), pharmaceutical products (+1% mom) and clothes and shoes (+1.5% m/m). The price of gasoline decreased by 0.2% mom, for liquefied gas by 0.3% mom, while the cost of diesel fuel did not change.

In the area of paid services, prices increased by 0.8% mom, and their contribution to the overall price increase in May amounted to 0.3pp. The cost of outpatient services increased (+1.3% mom), rental housing (+1% mom), catering services (+1.2% mom) and personal services (+1.7% mom). At the same time, hot water declined in price (-0.9% mom), cold water (-0.2% mom) and sanitation (-0.5% mom).

Main components of CPI, %

Type of good or service	May 2022			May 2021		
	mom	ytd	yoy	mom	ytd	yoy
All goods and services	1.4	8.8	14.0	0.7	3.5	7.2
Food products	1.7	13.5	19.0	0.8	4.9	9.3
Bakery and cereals	3.3	14.2	20.8	0.9	2.8	9.1
Meat	1.1	7.1	14.6	0.9	3.4	6.8
Fruits and vegetables	-0.9	25.7	26.2	0.2	10.1	4.4
Milk products	3.9	14.1	18.7	0.6	3.2	8.0
Oils, fats	1.7	8.4	17.1	2.1	8.5	26.9
Non-food products	1.4	6.3	11.9	0.6	3.1	6.7
Clothes and footwear	1.5	5.6	9.0	0.7	2.2	5.9
Cleaning materials	3.7	14.7	17.5	0.8	3.0	8.2
Gasoline	-0.2	-0.6	4.7	1.8	13.6	12.7
Diesel	0.0	-2.2	41.5	0.9	1.2	-2.7
Services	0.8	4.5	9.1	0.7	2.1	5.1
House maintenance	0.0	1.2	4.6	0.0	0.8	1.2
Food serving	1.2	10.3	14.5	0.6	1.9	8.4
Education	1.0	3.0	10.3	0.1	0.8	4.0
Health care	1.3	9.8	12.8	0.5	2.6	5.6
Personal services	1.7	7.9	11.6	1.1	2.9	7.9
Telecom services	0.0	0.3	1.9	0.3	1.4	1.8

Source: BNS

Our opinion

After a sharp acceleration in March 2022, consumer inflation continued to slow down in May for the second month in a row. A slowdown in inflation dynamics was noted in the segment of food products and services, while non-food products became more expensive in May. The disinflation factors in the food segment were the seasonal reduction in prices for fruits and vegetables, while paid services fell in price due to the regulation of state monopoly tariffs and the end of the heating season, which reduced demand for relevant goods and services.

An ambiguous picture has developed in the foreign exchange market, despite the strengthening of the exchange rate of the national currency against the US dollar to 430.7 per 1 dollar (monthly average) in May of this year (minimum since December 2021), the volatility of the exchange rate is still high – the tenge is strengthening, then weakens by 2-3% per day. In turn, the tenge exchange rate against the ruble weakened to a record level of 6.8 tenge, having depreciated by 44% against March of this year and by 16% against December last year. At the same time, the annual level of consumer inflation in the Russian Federation has been above 17% yoy since April. Considering that almost 40% of imports of goods come to Kazakhstan from the Russian Federation, it can be assumed that the depreciation of the tenge against the ruble has become one of the factors of accelerating inflation for non-food products. In addition, inflation in the country was negatively affected by the rise in the cost of both the cost of the freight itself and disruptions in the established logistics of deliveries through the territory of the Russian Federation.

Despite ongoing administrative measures by government agencies to contain price increases and the start of the new harvest season for fruits and vegetables, the slowdown in consumer inflation in May was restrained. Sanctions against the Russian Federation, rising food prices around the world, as well as a new cycle of soft fiscal policy in the republic this year have a negative impact on inflation rates to one degree or another. We expect a further slowdown in consumer prices in the coming months, which will help bring annual inflation below 14%.

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