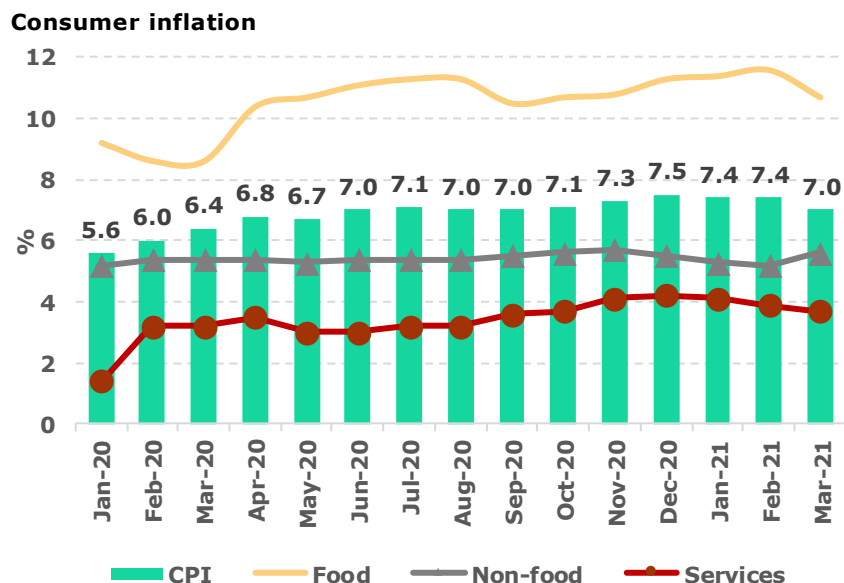


April 2, 2021

The growth rate of consumer prices in March slowed down to 0.6% mom from 0.7% mom in February. This happened primarily due to the stabilization of the growth in prices for food products and tariffs for paid services. In annual terms, inflation was 7%, returning to mid-2020 indicators. Thus, the inflation peaks of 7.3%-7.5%, recorded in November 2020 - February 2021, have passed, and the "low base" effect has almost exhausted itself. The factors behind the slowdown in inflation are administrative intervention, the persistence of suppressed demand from the population and the stabilization of the national currency exchange rate, leading to a decrease in household inflationary expectations. We maintain our current forecast for inflation at 6.5% for 2021.

According to the Bureau of National Statistics, inflation in March slightly slowed down to 0.6% mom from 0.7% mom in February. On an annualized basis, the consumer price index in March significantly decreased to 7.0% from 7.4% in February. Food prices increased by 10.7% yoy (11.6% yoy in February 2021), prices for non-food products increased by 5.6% yoy (5.2% yoy in February 2021), paid services rose by 3.7% yoy (3.9% yoy in February 2021).



Source: BNS, Halyk Finance

Food prices in March increased by 0.8% mom, providing a 0.3pp contribution to inflation. In particular, such food products as sunflower oil went up (+1.9% mom), sugar (+1.7% mom), eggs (+0.7% mom), flour (+0.6% mom) and (fruits and vegetables) and horticultural products (+1.7% mom). At the same time, prices for rice decreased (-1.1% mom), millet (-0.6% mom) and cabbage (-0.3% mom).

Prices for non-food products in March increased by 0.7% mom, providing a 0.2pp contribution to inflation. The cost of clothing and footwear increased (+0.3% mom), detergents and cleaning products (+0.6% mom). The cost of gasoline has noticeably increased (+4.9% mom), while the cost of diesel fuel has decreased (-0.5% mom).

In the paid services sector, prices increased by 0.2% mom, and their contribution to the overall rise in prices amounted to 0.1pp. Tariffs increased for outpatient services (+0.4% mom), rental housing (+0.5% mom) and cold water (+1.1% mom). Some utilities have dropped in price moderately.

**Inflation, %**

Type of good or service	March 2021			March 2020		
	mom	ytd	yoy	mom	ytd	yoy
<b>All goods and services</b>	<b>0.6</b>	<b>1.9</b>	<b>7.0</b>	<b>0.9</b>	<b>2.3</b>	<b>6.4</b>
<b>Food products</b>	<b>0.8</b>	<b>3.0</b>	<b>10.7</b>	<b>1.7</b>	<b>3.6</b>	<b>9.3</b>
Bakery and cereals	0.3	1.3	10.0	0.8	1.7	14.2
Meat	0.7	1.6	8.0	1.2	2.3	14.1
Fruits and vegetables	1.7	7.8	9.5	5.1	12.3	4.6
Milk products	0.7	1.8	8.2	0.8	2.3	7.7
Oils, fats	1.2	4.6	24.7	0.7	2.0	5.5
<b>Non-food products</b>	<b>0.7</b>	<b>1.5</b>	<b>5.6</b>	<b>0.4</b>	<b>1.4</b>	<b>5.5</b>
Clothes and footwear	0.3	1.1	5.2	0.2	0.7	5.8
Cleaning materials	0.6	1.7	10.1	0.6	1.8	5.8
Gasoline	4.9	5.4	2.4	0.4	5.5	3.9
Diesel	-0.5	-0.7	-7.4	-0.1	0.2	2.8
<b>Services</b>	<b>0.2</b>	<b>0.9</b>	<b>3.7</b>	<b>0.5</b>	<b>1.4</b>	<b>3.5</b>
House maintenance	0.1	0.7	1.0	0.0	0.1	0.8
Food serving	0.1	0.1	6.6	0.1	0.4	4.6
Education	0.1	0.3	3.4	0.1	0.8	2.3
Health care	0.4	1.9	6.8	0.3	1.5	6.2
Personal services	0.3	0.8	7.1	0.2	0.6	5.2
Telecom services	0.4	0.7	1.6	0.8	1.2	2.1

*The table contains the main components of CPI*

*Source: BNS, Halyk Finance*

**Our opinion**

At the end of the first quarter of this year, inflation slowed down noticeably to 1.9% compared to 2.6% in the previous quarter and 2.3% in the same period last year. The main impact on the slowdown in inflation was exerted by food prices, which amounted to 3% qoq against 3.9% and 3.6%, respectively. The cost of paid services showed a moderate growth of 0.8% compared to 1.7% and 1.4%, respectively. At the same time, the growth rates of prices for non-food products remained practically unchanged.

The easing of inflationary pressures is facilitated by the government's administrative measures temporarily "smoothing" inflationary surges through the use of stabilization funds for socially important food products, uninterrupted supply of seasonal goods that are sensitive to price changes, such as fuel, as well as state regulation of tariffs for housing and communal services. In addition, the seasonal factor of a decrease in consumer activity of the population, which falls on the beginning of the year, is partially provided by significant reserves of food purchased by the population for future use last year. So, the rush growth in purchases of food products in the wake of the pandemic was 7% versus 1% on average for 2018-2019. The upward trend in food consumption was also observed in the structure of household cash expenditures, where it reached 54% last year, which was markedly higher than the 47% average since 2015. Consumer demand of the population is still subdued, as evidenced by the decline in retail sales in January-February by 3% yoy. At the same time, we believe that until the situation with the pandemic stabilizes, the population will tend to adhere to a savings model of consumption and thus will not exert significant pressure on prices from the demand side.

The external economic background was relatively calm last month. The average tenge exchange rate weakened by about 2 tenge or less than half a percent and amounted to 420.5 tenge per US dollar. At the same time, the tenge has continuously strengthened in the previous four months by a total of 10 tenge to slightly less than 420 per dollar.

The dynamics of price growth in January-March was in line with our expectations and was at the level above 7.0% yoy. By the end of the second quarter of this year, inflation, according to our estimates, will slow down to 6.4% in annual terms. At the end of this year, we forecast inflation at 6.5%.

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