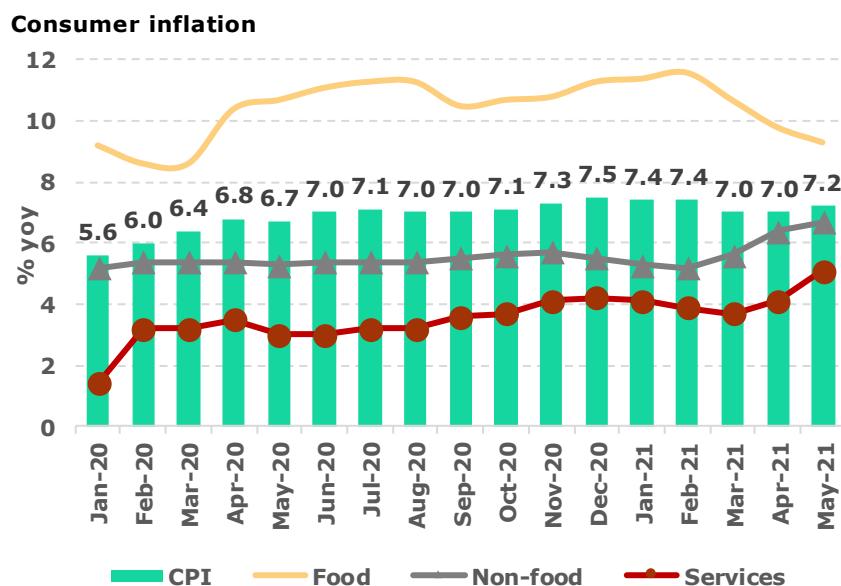


June 2, 2021

The growth rate of consumer prices in May slowed down to 0.7% mom from 0.9% mom in April. The slowdown in inflation in May was facilitated by the weakening of the dynamics of growth in food prices and moderate growth in prices for non-food products, while the growth in the cost of paid services reached its highest value since August 2018. At the same time, gasoline prices have continued to rise for four months in a row, as a result, their influence on the growth of prices for consumer goods and services persists. Despite the slowdown in monthly inflation, annual inflation accelerated from 7.0% in April to 7.2% in May, while in some regions of the country inflation exceeded 8.0%. At the end of 2021, we forecast inflation at 7.0%.

According to the Bureau of National Statistics, inflation slowed to 0.7% mom in May from 0.9% mom in April. On an annualized basis, the consumer price index in May was 7.2%, up from 7.0% in the previous month. Growth in food prices slowed to 9.3% yoy (9.8% yoy in April 2021), while growth in prices for non-food products accelerated to 6.7% yoy (6.4% yoy in April 2021). Paid services have risen significantly and their growth rates have reached a maximum of 5.1% yoy (4.1% yoy in April 2021) since August 2018 (4.9% yoy).



Source: BNS, Halyk Finance

Food prices in May increased by 0.8% mom, providing a 0.3pp contribution to inflation. In particular, rose prices for such food products as sunflower oil (+ 2.1% mom), sugar (+1.7% mom), cereals (+1.3% mom) and meat (+0.9% mom). At the same time, prices for eggs decreased (-2.8% mom).

Prices for non-food products in May increased by 0.6% mom, providing a 0.2pp contribution to inflation. The cost of clothes and footwear increased (+ 0.7% mom), detergents and cleaning products (+0.8% mom). Gasoline prices went up significantly (+1.8% mom) and diesel fuel (+0.9% mom).

In the paid services sector, prices increased by 0.7% mom, and their contribution to the overall rise in prices amounted to 0.2 pp. Tariffs for garbage collection increased (+5.7% mom), housing rent (+0.5% mom) and catering services (+0.6% mom). Prices for housing maintenance have not changed.

**Inflation, %**

Type of good or service	May 2021			May 2020		
	mom	ytd	yoy	mom	ytd	yoy
<b>All goods and services</b>	<b>0.7</b>	<b>3.5</b>	<b>7.2</b>	<b>0.5</b>	<b>3.7</b>	<b>6.7</b>
<b>Food products</b>	<b>0.8</b>	<b>4.9</b>	<b>9.3</b>	<b>1.2</b>	<b>6.8</b>	<b>10.7</b>
Bakery and cereals	0.9	2.8	9.1	1.3	4.0	13.4
Meat	0.9	3.4	6.8	1.3	5.2	14.7
Fruits and vegetables	0.2	10.1	4.4	1.5	20.3	10.1
Milk products	0.6	3.2	8.0	0.8	3.8	8.8
Oils, fats	2.1	8.5	26.9	0.9	4.0	7.1
<b>Non-food products</b>	<b>0.6</b>	<b>3.1</b>	<b>6.7</b>	<b>0.4</b>	<b>2.1</b>	<b>5.3</b>
Clothes and footwear	0.7	2.2	5.9	0.4	1.2	5.2
Cleaning materials	0.8	3.0	8.2	1.1	4.9	7.9
Gasoline	1.8	13.6	12.7	-0.7	3.4	2.8
Diesel	0.9	1.2	-2.7	-0.7	-2.9	-0.4
<b>Services</b>	<b>0.7</b>	<b>2.1</b>	<b>5.1</b>	<b>-0.3</b>	<b>1.2</b>	<b>3.0</b>
House maintenance	0.0	0.8	1.2	0.0	0.1	0.6
Food serving	0.6	1.9	8.4	0.1	0.5	3.6
Education	0.1	0.8	4.0	0.0	0.8	2.3
Health care	0.5	2.6	5.6	1.7	3.2	6.0
Personal services	1.1	2.9	7.9	1.4	1.9	4.9
Telecom services	0.3	1.4	1.8	0.2	1.8	2.5

*The table contains the main components of CPI*

*Source: BNS, Halyk Finance*

At the regional level, the highest inflation rates in May were recorded in Aktobe and Mangistau oblasts at 8.1% yoy and 8.3% yoy. The lowest inflation was recorded in Nur-Sultan – 6.4% yoy, Almaty – 6.7% yoy and Shymkent – 6.8% yoy. In the overwhelming majority of regions (10), inflation was significantly higher than the republican level of 7.2% yoy.

### Our opinion

A noticeable rise in prices in April to 0.9% mom was short-lived and slowed to 0.7% mom in May. Over the five months of this year, prices increased by 3.5%, which is only slightly lower than the value of 3.7% in January-May 2020. Thus, it is obvious that so far inflationary pressure in Kazakhstan remains at a relatively high level. All components of inflation are supporting the rise in prices.

The rise in prices for food products in May slowed down slightly due to a decrease in the rate of growth in prices for fruit and vegetable products, for which an increase of only 0.2% per month was recorded. In addition, there is a slowdown in the growth of prices for imported agricultural products.

In the segment of non-food products, the rise in prices is supported by the rise in prices for motor fuel for the fourth month in a row. As a result, since the beginning of the year, the cost of gasoline has grown by 13.6%. The cost of diesel fuel is also increasing in tandem with gasoline, albeit at a much more moderate pace (1.2%). We believe that the observed increase in the cost of fuel will be gradually shifted to all components of inflation during the second half of the year, and this, along with other factors (import of price inflation through foreign trade channels, the rise in the cost of electricity generation and transmission of electricity, projected volatility in the foreign exchange market in August - September) will maintain consumer price inflation at current levels.

The increase in the cost of paid services in May this year showed the strongest growth in the current year at 0.7% mom and reflects the consequences of the dynamic rise in fuel prices, which affects, in particular, the cost of transport services.

The average rate of the national currency strengthened in May by 2.45 tenge (+0.6% mom) and amounted to 427.66 tenge per US dollar, which has a positive effect on the cheaper cost of consumer imports.

The average annual inflation rate in May reached 7.2% and, according to our expectations, inflation in the second half of this year will be slightly above the 7% mark. At the same time, in our current forecast, we take into account the factor of the high base of December 2020, when the annual inflation peaked at 7.5% yoy, as a result of which by the end of December this year, we expect inflation to be at the level of 7% yoy.

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