

June 16, 2022

Against the backdrop of economic recovery and increased consumer activity of the population, retail trade turnover in real terms grew by 6.5% yoy in 2021, the highest value since 2015. However, further growth slowed down sharply due to the January events, the depreciation of the tenge and a surge in inflation in February and March of this year. As a result, in January-April 2022, the retail sector showed an improvement in retail sales of only 0.8% yoy.

In 2022, in our opinion, due to the persistence of the negative effects of external shocks, the return of households to the pre-pandemic consumption model will be slow, and the growth rate of retail trade turnover will be 3-4% yoy.

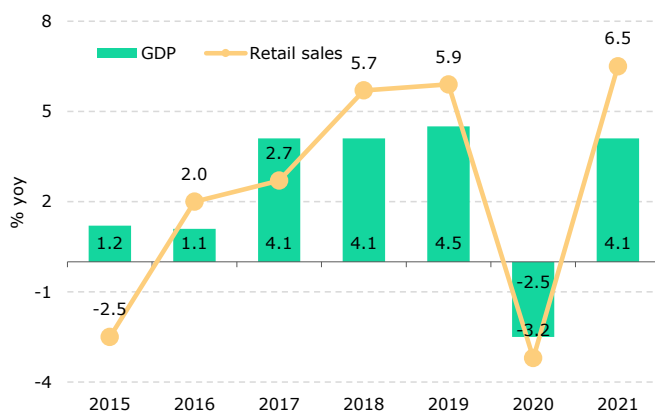
After the rise in 2021, consumers took a break in early 2022

The events in January, the weakening of the national currency and the accelerated growth of prices had a negative impact on the retail trade turnover, which in January decreased immediately by 57.7% mom. At the same time, historically, the January decline in retail sales after December highs in the past few years was at no more than 44% mom. We note that even in April 2020, during the introduction of a hard lockdown, the decline in retail turnover did not exceed 41.4% mom.

Cumulatively, the retail trade turnover in January-April 2022 showed a slight plus, its growth amounted to 0.8% yoy. At the same time, the positive dynamics of retail trade is observed in almost all regions, with the exception of Almaty (-8.4% yoy) and Aktobe region (-10% yoy). In another 5 regions, retail trade turnover growth is still below 3% yoy. The increase in consumption is noted primarily due to nonfood products, the sales volume of which increased by 4.6% yoy, while food products decreased by 7.4% yoy.

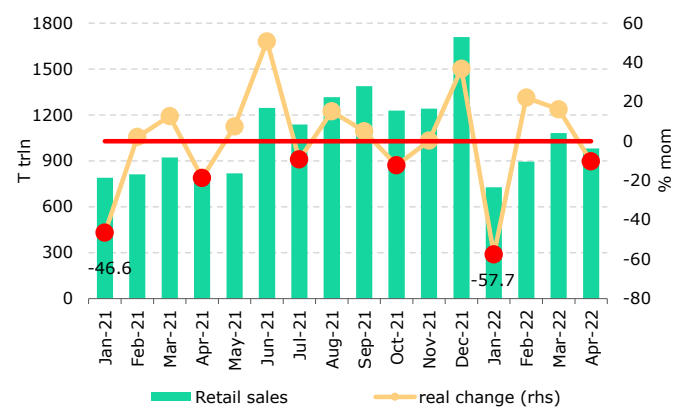
The steady increase in retail sales in February, March and April compared to January points to the temporary nature of the slowdown in trade earlier this year. At the end of last year, retail trade overcame the recession of the pandemic 2020 and retains the potential for a further increase in consumer activity against the backdrop of rising wages and the growth of the economy as a whole. However, a complete departure from the savings model of household behavior is not yet expected due to a surge in deposit rates, which boosts their attractiveness.

Fig. 1. Dynamics of retail trade



Source: BNS

Fig. 2. Dynamics of retail trade



Source: BNS

Last year the retail trade growth of 6.5% (the highest since 2015) was supported by the realization of pent-up demand after the pandemic, a rapid economic recovery and a 3.2% decline in sales in 2020 (low base effect). At the same time, the growth of retail trade was mainly due to the turnover of nonfood products, the sales volume of which increased by 9.6% yoy, while the growth in food products was recorded by only 1.0% yoy. Such a significant difference in the dynamics of these product groups is due to their pattern in the crisis year of 2020, when the opposite picture was observed a 10.1% yoy decrease in the turnover of nonfood products, while at the same time increasing food sales by 7% yoy.

Obviously, after the restoration of economic activity to the precrisis level, the population increased the volume of purchases of durable goods, especially considering that in the crisis year of 2020 they saved more, causing pent-up demand. Thus, deposits of individuals in 2020 increased by KZT1.7 trillion (+17.7%), while the growth in retail trade turnover came at only KZT0.4 trillion (+3.6%). Last year, retail deposits increased by KZT2.5 trillion (+22.9%), while retail trade turnover grew by KZT1.7 trillion (+14.2%).

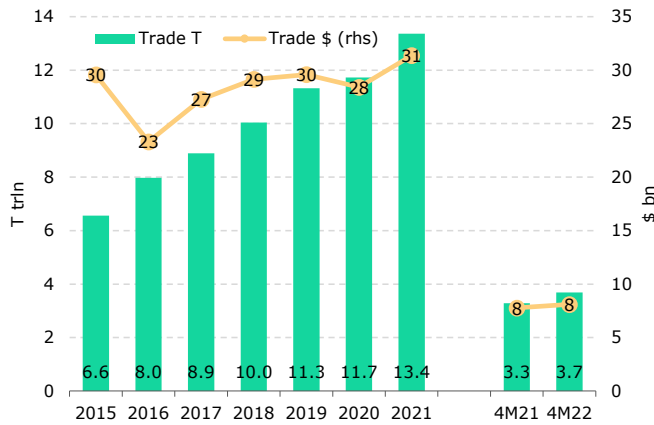
An additional stimulus for the growth of household deposits and consumption was the withdrawal of pension savings, which amounted to KZT2.3 trillion in 2021. Of course, most of these savings were used to buy real estate, pay off or get a new mortgage. However, along with this, access to retirement savings temporarily increased the disposable income of the population and propelled a rise in consumption.

Retail sales in nominal terms in 2021 increased by 14% to KZT13.4 trillion, and in dollar terms, their size grew by \$3 billion to \$31 billion, gradually approaching \$36 billion, the historical maximum of 2013.

Consumer spending per capita last year increased by 13% to KZT753 thousand per year (\$1.8 thousand) after they actually stagnated in 2017-2020, being at the same level of \$1.6 thousand per year.

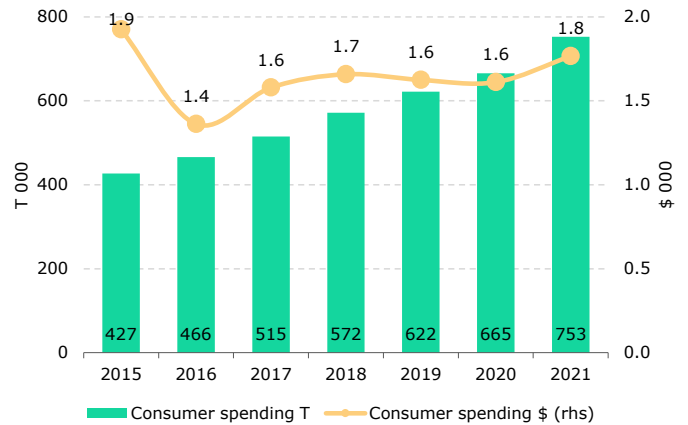
The weakening of the national currency over the past 4 years by more than 30% seriously limits the growth of retail sales, not contributing to the attractiveness of the local market for foreign retail chains. So, for example, two large foreign retailers left Kazakhstan – Carrefour and Ramstore, while others have postponed their entry into the Kazakhstan market for the time being.

Fig. 3. Dynamics of retail trade



Source: BNS

Fig. 4. Consumer expenditures of population



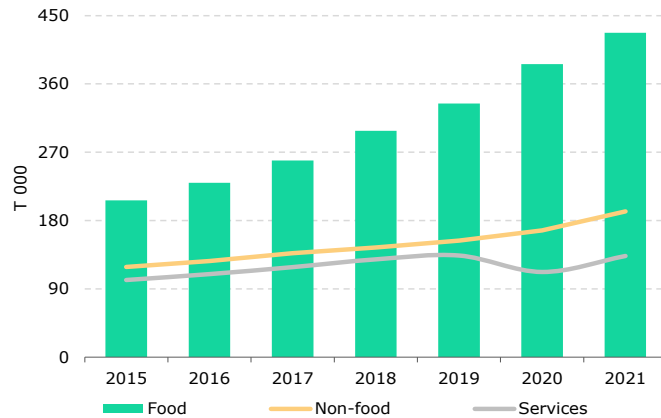
Source: BNS

Food spending exceeds 50% of consumer purchases

In recent years, a constant increase in the share of household spending on food has become the norm. This trend has been observed since 2014, and during this time this share has increased from less than 45% in the structure of expenses to almost 53% by the end of 2021. As a result, the average Kazakhstani, starting from 2015, spent 2.1 times more on food per year (KZT427 thousand), while at the same time spending on nonfood items increased only 1.6 times, and on services – 1.3 times.

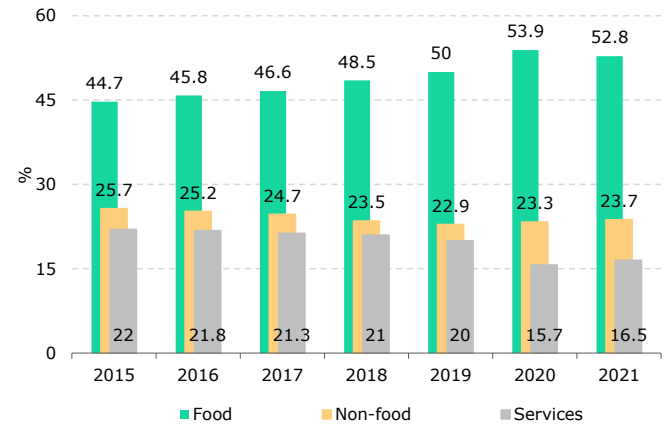
The ever-increasing share of household spending on food products reflects rising food prices, as well as citizens' incomes lagging behind the pace of consumer inflation. In fact, a significant part of the population has been in a crisis situation in recent years. It is known that the poorer the population, the higher the share of expenditures on food. Thus, the share of these expenses in Kazakhstan is approximately three times higher than in the EU countries, and from 2020 more than half of all consumer spending of the population is directed to meet the need for food. Given the regulation of tariffs by state monopolies, which constrain the growth in the cost of the consumer basket, such an increase in food prices is significant.

Fig. 5. Consumer spending by component



Source: BNS

Fig. 6. Retail trade structure



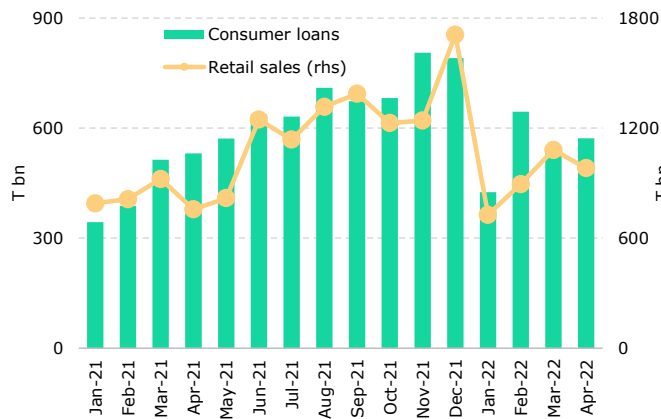
Source: BNS

Slowdown in lending growth

Against the backdrop of economic recovery, the volume of new consumer loans issued in 2021 increased by 90% to KZT7.3 trillion from KZT3.8 trillion. This, in turn, had a positive impact on the retail trade turnover, which grew by KZT1.7 trillion to KZT13.4 trillion. The consumer loan portfolio for 2021 raised by KZT1.8 trillion (+40%) to KZT6.1 trillion, demonstrating a significant acceleration compared to the growth of the loan portfolio in the previous corona crisis year.

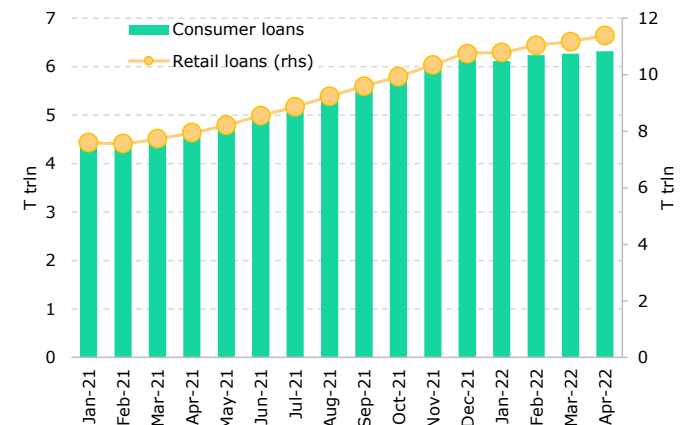
In January-April 2022, there is a more moderate growth in the volume of new consumer loans (+23.4% yoy) compared to 2021, while a more restrained dynamics of retail sales is also noted (+12.3%). The January events, as well as the tightening of lending conditions by banks due to growing geopolitical tensions and devaluation expectations of the population and business, had a negative effect on the growth of consumer lending this year. The increase in the base rate since the second half of last year from 9% to the current 14% has not yet affected the interest rates on new consumer loans issued – they change in a narrow range of 19-20%.

Fig. 7. New consumer loans and retail sales



Source: BNS

Fig. 8. Retail and consumer loans

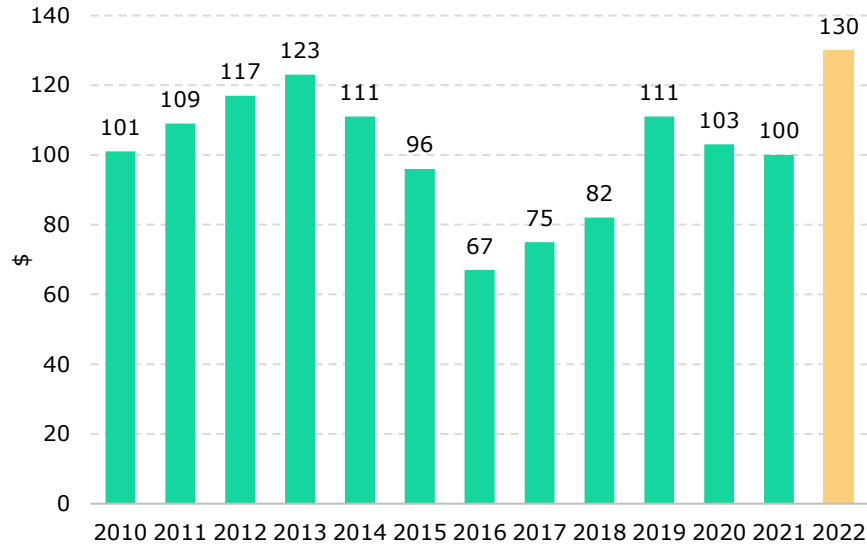


Source: BNS

Despite rising wages, trade is growing at a slower pace

Against the backdrop of a significant acceleration in the growth of consumer prices in the last three years, the minimum wage since January of this year has been increased by 41% from KZT42.5 thousand to KZT60 thousand. Due to this increase, the minimum wage in dollar terms reached its maximum level in the entire history of observation at \$130, including the period of the fixed exchange rate of the national currency, when it was \$123 at its peak in 2013. This measure, according to government agencies, will directly affect more than 1 million people, especially those with low wages, and will have a positive effect on household incomes, given that wages occupy approximately 70% in the income structure of the population.

Fig. 9. Dynamics of minimal wage in \$

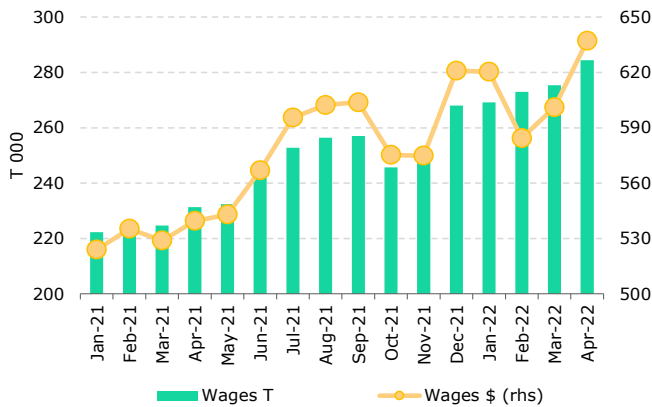


Source: BNS

Meanwhile, the size of the average salary in April increased by 6.1% since the beginning of the year and by 23% yoy to KZT284.4 thousand (\$637). The increase in wages this year is under pressure, both from the side of the workers themselves and calls from government officials to large companies, and thorough increased budget spending. Thus, in January-April of the current year, the cost of paying wages to state employees was raised by 24% yoy.

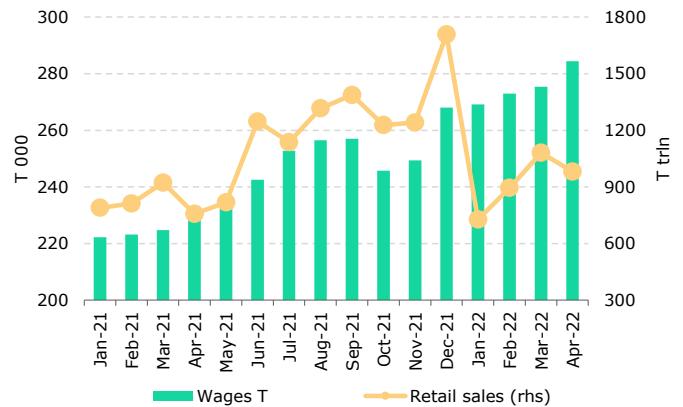
Positive changes in the labor market due to higher wages support the current consumer activity of the population. The shock caused by the war in Ukraine began to gradually weaken, the national currency exchange rate returned to February levels, and government agencies are actively intervening in the consumer market to mitigate price fluctuations. All this creates favorable conditions for the partial realization of pent-up consumer demand accumulated over the past years.

Fig. 10. Wages growth



Source: BNS

Fig. 11. Dynamics of wages and retail sales



Source: BNS

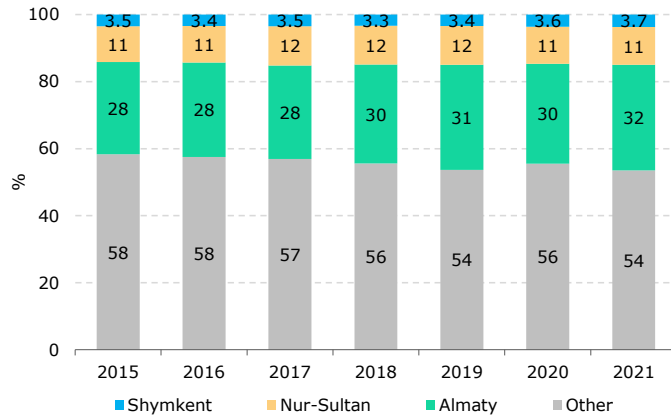
The most dynamic trade in Almaty and Shymkent

Almaty is the most dynamically developing and largest consumer market in the country – over the past 5 years, the cumulative growth of retail trade in it amounted to 39%. As a result of this growth, the city's share of the country's total retail turnover increased from 28% to 32%, with the city's population now exceeding 2 million. High rates of retail trade were also observed in the city of Shymkent (34%), but the share of this city in the structure of the country's trade turnover is approaching only 4%, although the population exceeds 1.1 million. The city of Nur-Sultan demonstrates more moderate growth rates, which over five years have developed at the level of 22%, which

corresponded to the national average. At the same time, the share of the capital is 11% in the total turnover, and the population is 1.2 million.

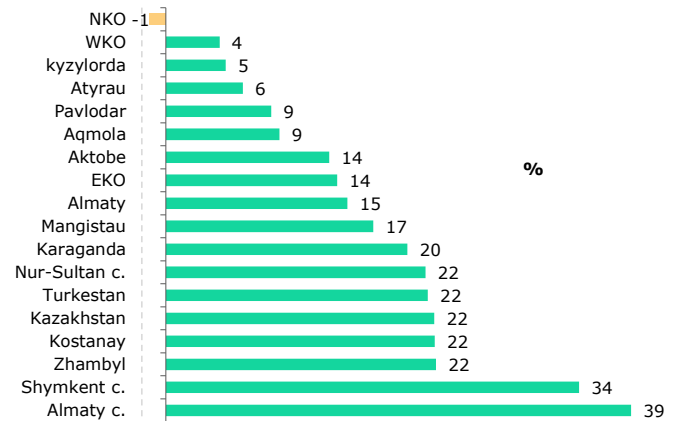
In general, in the republic, a weak dynamics of trade growth over the past 5 years has been noted in the northern regions, where population is declining, and in the western regions, where there is a high dependence on oil revenues. On the contrary, in the center and south of the country, retail sales are more dynamic against the backdrop of high rates of population reproduction in the largest cities. If current trends continue, in 5 years the country's three largest cities will already account for half of the country's total retail turnover (46.5% in 2021).

Fig. 12. Structure of retail sales by region



Source: BNS

Fig. 13. Accumulated growth of retail trade 2017-2021

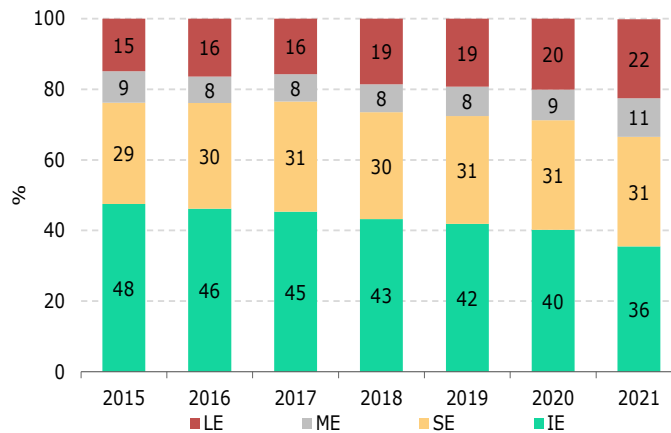


Source: BNS

Retail market concentration for pandemic 2020-2021 significantly increased, which was influenced by severe anti-COVID restrictions, that significantly affected the share of turnover of individual entrepreneurs (IE). Thus, over the past two years, their share in the total trade turnover has decreased to 36% (-6pp) – the same as in the previous 4 years (-6pp). As a result, over the same period, following the results of 2021, the share of trading enterprises (small, medium and large) in the total volume of trade increased to 64%. In turn, the weight of small enterprises (SE) grew by 0.5pp to 31%, while the share of large enterprises (SE) raised by 3pp to 22%. The share of medium-sized enterprises (SE) increased by 2.7pp to 11%.

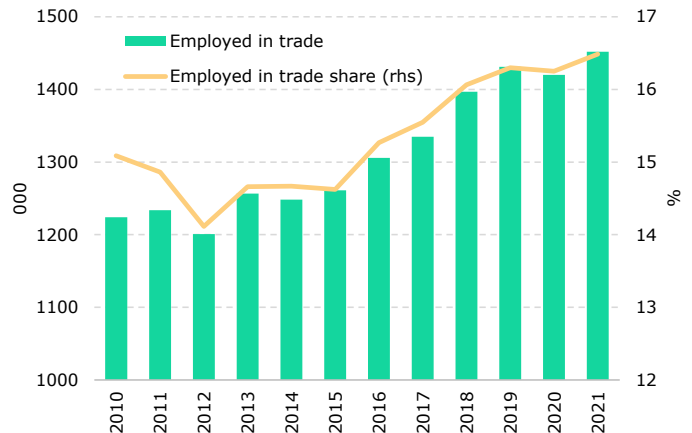
The rapid recovery of the trade sector last year was accompanied by an increase in the level of employment in this industry by almost 31 thousand people, while trade provided 41% of the total increase in employment in all industries (75 thousand). The total number of employed in the trade sector is approaching 1.5 million, which makes it the largest employer in the country with a significant margin from other sectors – agriculture (1.2 million), 1.1 million each in industry and education.

Fig. 14. Structure of trade by company size



Source: BNS

Fig. 15. Employment in trade



Source: BNS

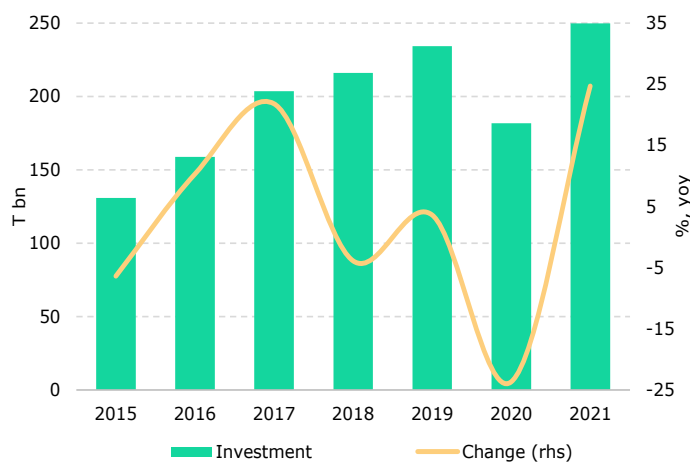
It should be noted that almost 1 million of all those working in trade provide employment in small and medium-sized businesses. In addition, the bulk of individual entrepreneurs is concentrated in the sphere of trade, the number of which exceeds 366 thousand, or almost a third of the total number of individual entrepreneurs in the country.

After the decline in investment in domestic trade in 2020 by 24% to KZT181.7 billion, in 2021 there was an increase of about the same amount of 24.7% to KZT250 billion. The main volume of investments in the field of domestic trade fell on the city of Almaty and the Almaty region, where KZT99 billion was invested (KZT65.6 billion in 2020), which corresponded to 40% of all investments. In Nur-Sultan, investments amounted to approximately KZT22 billion (KZT20 billion in 2020), and in Shymkent about KZT17 billion (KZT7.8 billion in 2020).

In January-April of the current year, the growth of investments in the trade sector continued and amounted to 33% yoy, while 90% of all investments were made from the companies' own sources.

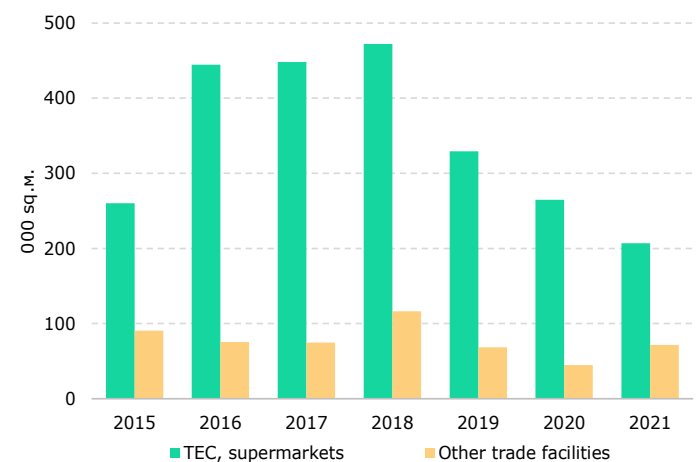
The commissioning of retail facilities in 2021 decreased for the third year in a row and turned out to be the lowest since 2013. Compared to 2020, the area of commissioned shopping malls, malls and supermarkets fell by 22% to 207 thousand sq.m., while the area of other new trade objects, on the contrary, increased by 60% to 72 thousand sq.m.

Fig. 16. Investment in trade



Source: BNS

Fig. 17. New trading space



Source: BNS

The war accelerated the pace of consumer inflation

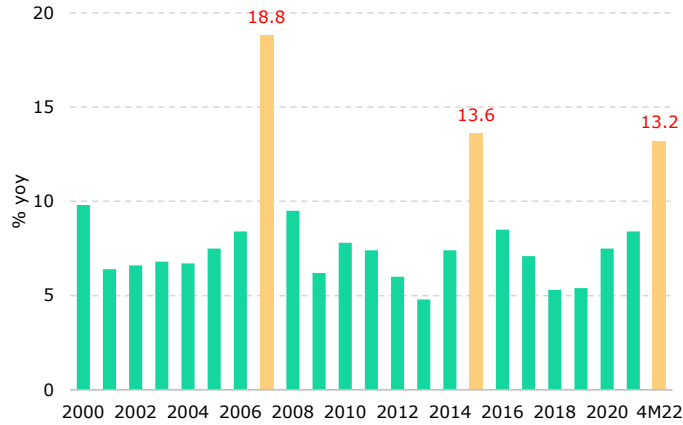
The pressure on the purchasing power of the population in the current year has increased significantly due to the acceleration of inflation. Consumer inflation slowed down to 2% mom in April after 3.7% mom in March. In annual terms, the growth of consumer inflation amounted to 13.2% yoy (12% yoy in March). The consumer price index in annual terms shows an upward trend for the fourth month in a row. The dynamics of annual price growth accelerated across all components of consumer inflation – food products raised in price by 17.9% yoy (+15.4% yoy in March), nonfood products – by 11.1% yoy (+10.9% yoy in March), and paid services – by 8.9% yoy (+8.3% yoy in March).

In the foreign exchange market, the national currency exchange rate is adapting to external shocks: having reached a peak of 512.2 per 1 US dollar in March, the tenge strengthened to 446.4 per 1 dollar at the end of April this year (-13%). The rapid recovery of the exchange rate of the national currency is one of the important factors in stabilizing inflation through the foreign exchange channel.

Despite the slowdown in consumer inflation, the uncertainty caused by the military actions in Ukraine and the accompanying sanctions pressure on the Russian Federation remains at a high level, and the lack of progress in the peaceful settlement of the conflict will help maintain inflationary expectations of the population and businesses at a high level.

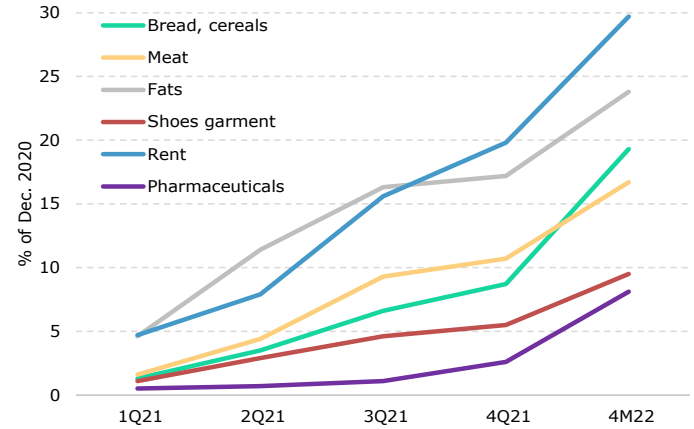
Thus, pro-inflationary pressure is an unfavorable factor for the dynamics of retail sales. At the same time, the rapid strengthening of the national currency, which began in March after passing a peak of 512 per 1 US dollar and returning to the previous values of the exchange rate, suggests that inflation may be close to its peak and consumer prices may stabilize in the second half of the year.

Fig. 18. Peak inflation since 2016



Source: BNS

Fig. 19. Acceleration of inflation in 2022



Source: BNS

Economic growth on the back of high commodity prices and rising wages, along with affordable retail lending, will be the main drivers of household consumer activity. At the same time, geopolitical instability, along with high inflation rates and the attractiveness of bank deposits due to high interest rates, will have a dampening effect on household consumer behavior. As a result, we expect the return of the population to the pre-pandemic consumption pattern will be slow, and retail trade growth in 2022 will be at 3-4%yoy.

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