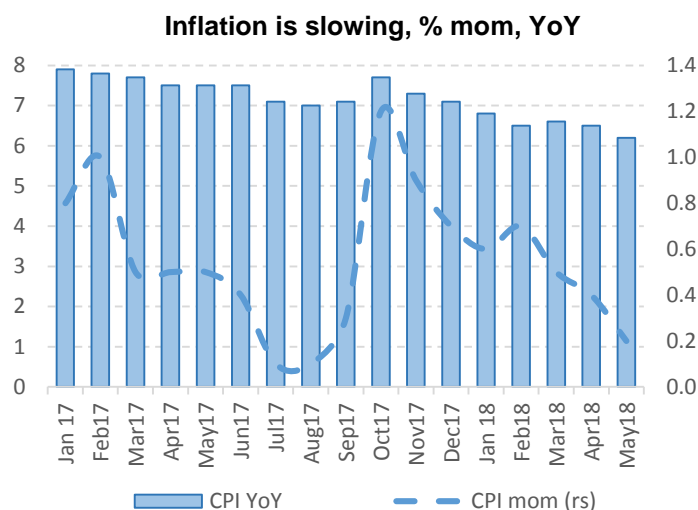
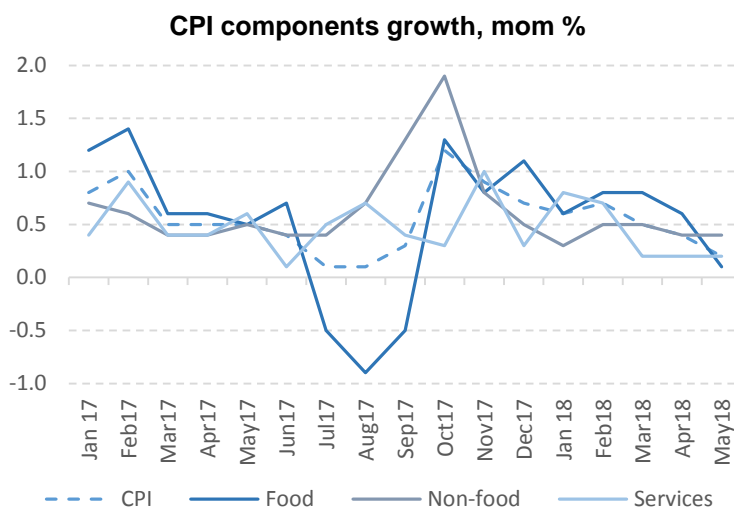


## Macroeconomic Updates – Inflation slowed down to 6.2% YoY in 5M18

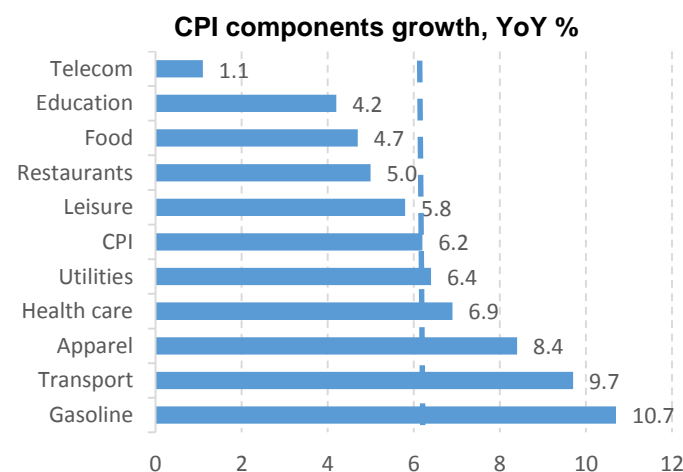
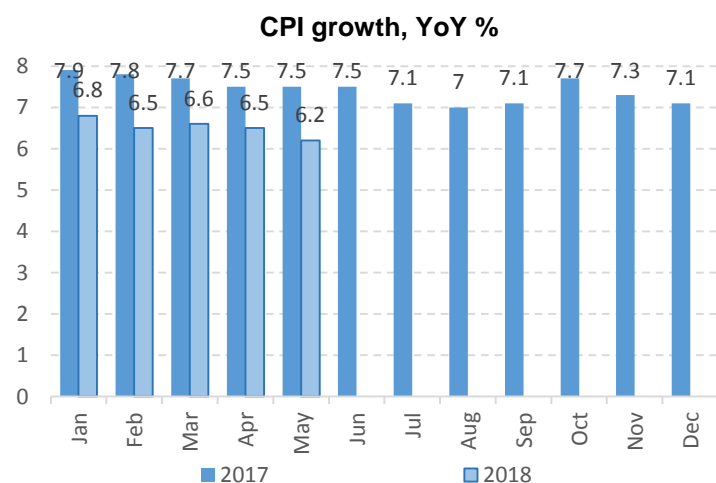
### Overview of 5M18

Consumer prices slowed significantly in May to 0.2% mom after 0.4% mom in April. As a result, the annual price level fell to 6.2% in May, against 6.4% in the previous month. The level of annual inflation is right in the NBK's target corridor of 5-7% with a tendency towards a further slowing.



Source: Committee on Statistics, Samruk-Kazyna

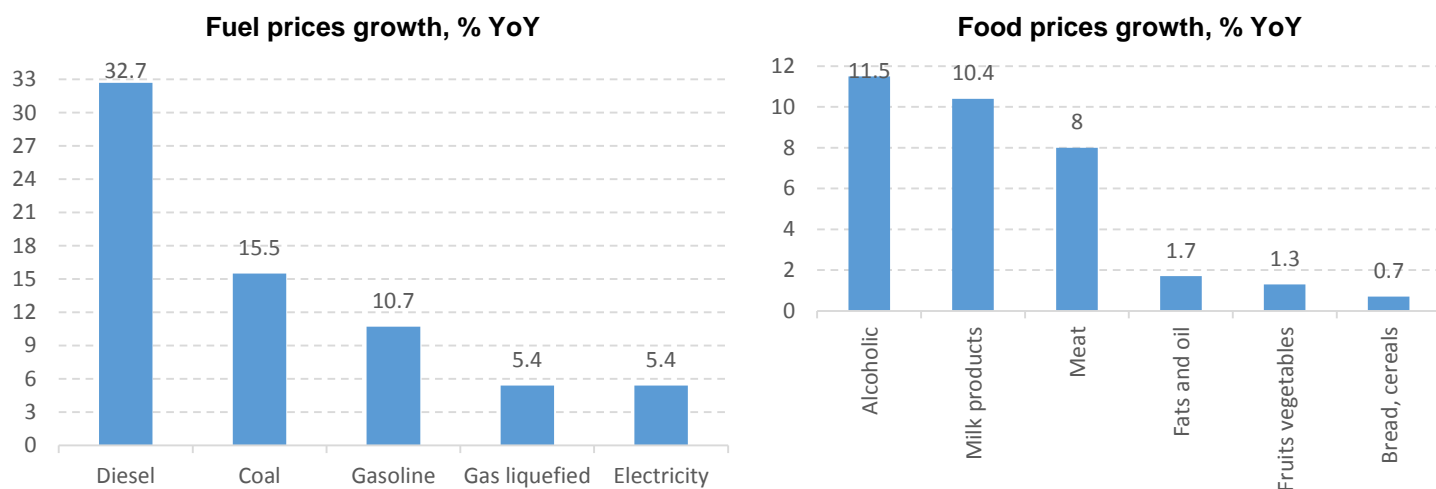
The slowdown in inflation was due to the sharp decline in growth of food products' prices, which growth rate fell by 0.5pp to 0.1% in May. Other components of inflation – non-food goods and services preserved the previous growth rate at 0.4% mom and 0.2% mom, respectively.



Source: Committee on Statistics, Samruk-Kazyna

### CPI breakdown

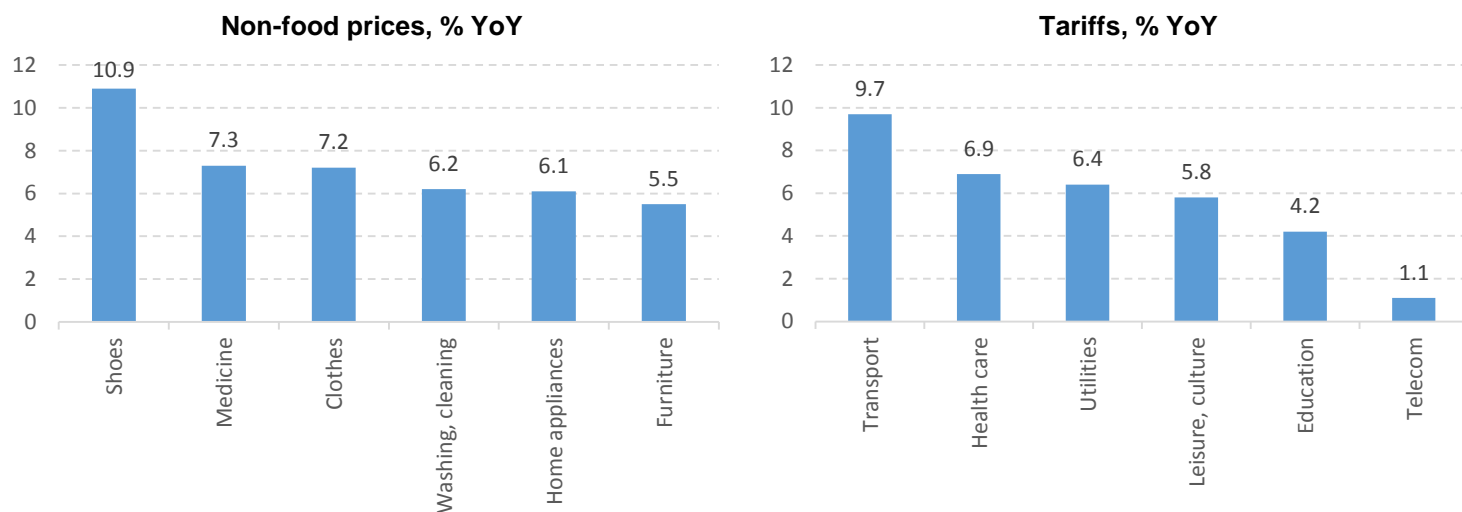
In contrast to a slowdown in the growth rate of food prices, there is a high growth in the price of fuel: diesel fuel (+32.7% YoY), coal (+15.5% YoY), gasoline (+10.7% YoY). The main driver of rising fuel prices is the rising cost of commodities on the world market, for example, the price of Brent in May increased by 50% in annual terms, also the increasing fuel prices in Russia and the spring field works support elevated fuel prices level.



Source: Committee on Statistics, Samruk-Kazyna

Non-food prices grew 8.4% YoY in May. Among non-food product high growth of prices was for shoes (+10% YoY), medicine (+7.3% YoY), clothes (+7.2% YoY).

Tariffs increased 5.3% yoy in May, with higher rise in transport tariffs (+10.9% YoY) due to faster growth in fuel prices, health care (+6.9% YoY), utilities (+6.9% YoY) which are also linked to fuel prices. Weak rise of tariffs was for telecom at just 1.1% YoY, representing voice services cheapening and move toward services based on the Internet.

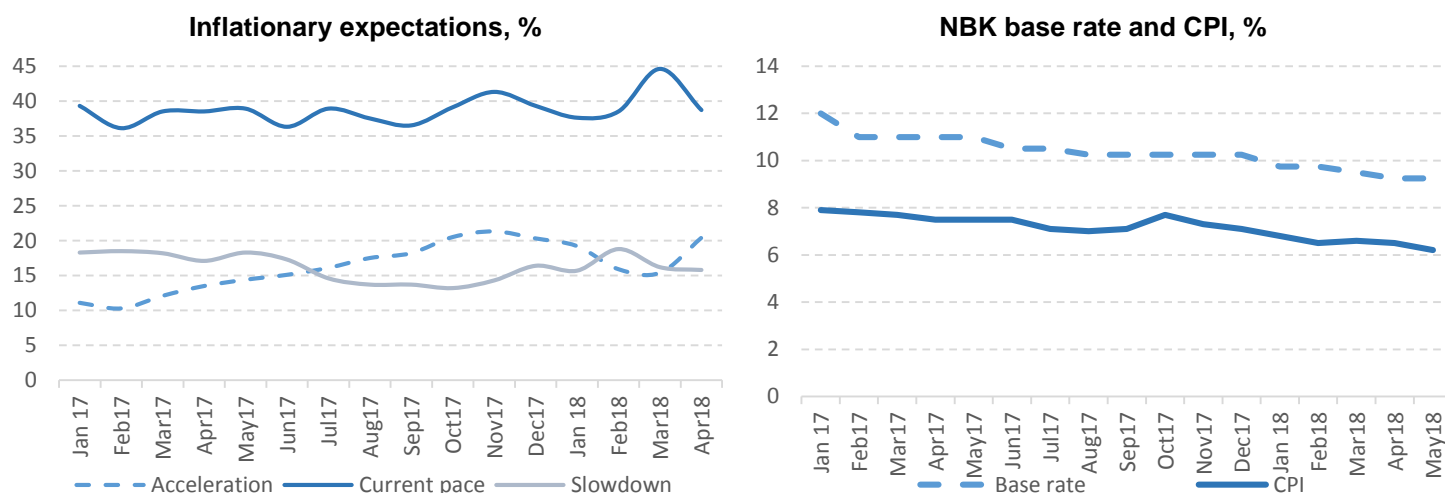


Source: Committee on Statistics, Samruk-Kazyna

### Inflationary expectations and outlook

Results from population surveys published by the NBK, show increasing inflationary expectations of population, the share of respondents awaiting higher prices in April rose to 20.4% from 15.4% in March and 13.5% in April 2017. The percentage of respondents expecting current price increase dropped to 38.7% in April from 44.6% in March, and 38.5% in April 2017. The percentage of respondents who are awaiting the slowdown in prices have dropped to 15.8% in April from 16.2% in March and 17.1% in April 2017.

A modest rise in inflation expectations can be associated with volatility in the foreign exchange market, due to tightening of Western sanctions against Russia at the beginning of April, which caused weakening of the national currency from 324.9 in April to 328.3 in May (monthly average per US dollar). In April despite the volatility of the exchange rate and the deterioration in inflationary expectations, NBK has lowered the base rate by 0.25pp to 9.25%. In view of continued trend of decelerating inflation, it is quite likely that the National Bank will decide to cut the base rate by a further 0.25pp at the meeting on June 4.



Source: Committee on Statistics, National Bank of Kazakhstan, Samruk-Kazyna

NBK in its inflation projection stated that it is highly likely inflation by the end of 2018 may slow down significantly and come below its target of 5-7%. The slowdown in inflation would be caused by low annual inflation in countries of Kazakhstan's key trade partners, stable low prices of food products on global markets, weak consumer demand due to falling real incomes of the population and low profitability of enterprises in transport, real estate, trading sector.

As consumer demand would continue to recover in line with marginal increase of external inflationary pressures, annual inflation in Kazakhstan will demonstrate modest increase, that will lead to the return of inflation in the 4-6% target corridor in 2019.

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