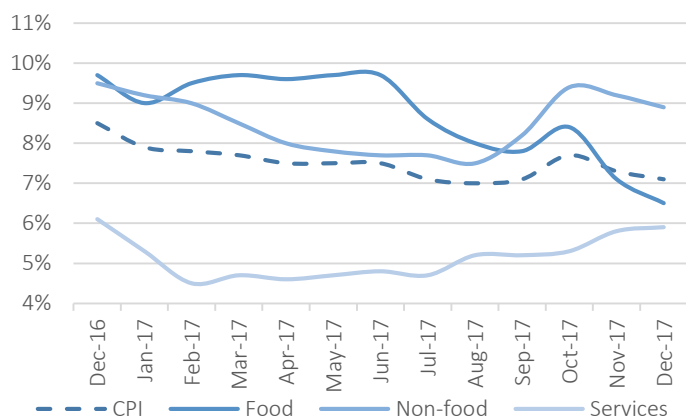


Macroeconomic Updates: Inflation eased to 7.1% in 2017 vs. 8.5% in 2016

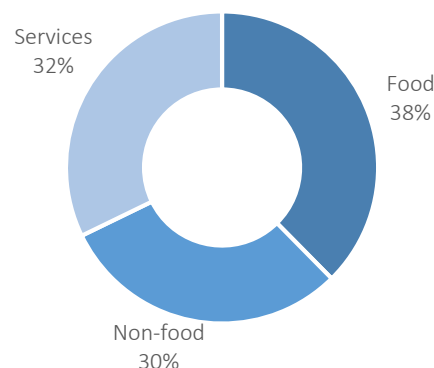
Overview of 2017

In December 2017, consumer prices in Kazakhstan increased by 7.1% YoY compared to a 7.3% YoY in November and 7.7% YoY in October. CPI growth was primarily driven by non-food items, which rose by 8.9% YoY in December 2017. Food price growth eased to 6.5% YoY, while services CPI growth accelerated to 5.9% YoY. On monthly basis, food items were the primary contributor to inflation with a reading of 1.1% MoM, while prices for non-food items and services increased by 0.5% MoM and 0.3% MoM respectively.

CPI growth by sector, % (Dec 2016 – Dec 2017)



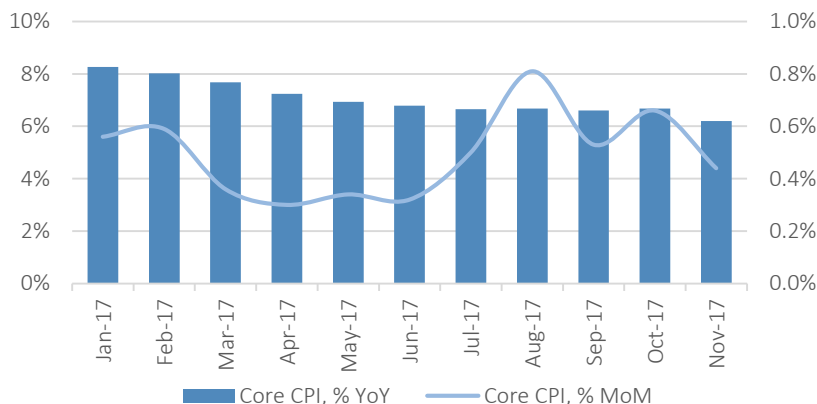
CPI breakdown by sector, % (2017)



Source: Committee on Statistics, Samruk-Kazyna

Core inflation, which excludes energy prices, regulated tariffs as well as fruit and vegetable prices, i.e. components that are subject to seasonal volatility, continued to moderate and stood at 6.2% YoY in November 2017. Core CPI grew by 0.44% MoM in November 2017 vs. 0.66% in October 2017, on the back of stable exchange rate and downward pressure from sluggish wage growth.

Core CPI growth, % MoM vs. % YoY (Jan 2017 – Nov 2017)

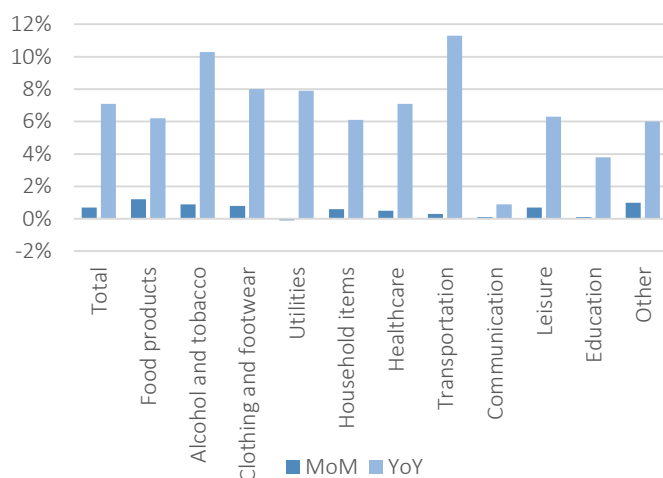


Source: Committee on Statistics, Samruk-Kazyna

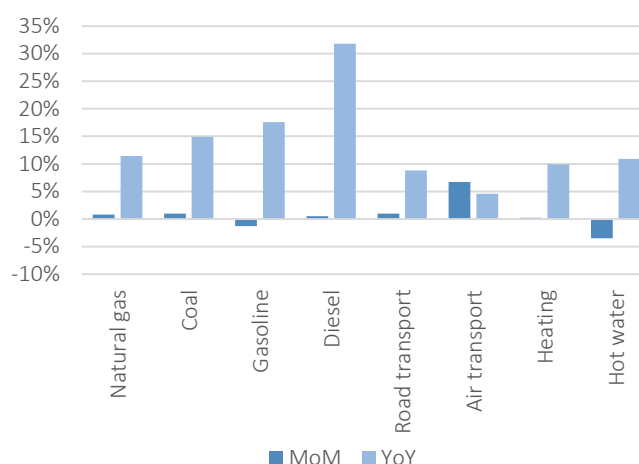
CPI breakdown

Prices for food products grew by 6.5% YoY in December 2017 vs. 7.1% YoY in November 2017. Alcoholic beverages (10.3% YoY), dairy products (9.3% YoY), fish and seafood (8.6% YoY), fruits and vegetables (8.4% YoY) were the primary drivers of CPI growth, while prices for sugar (-19.5% YoY), cereals (-15.1% YoY) and eggs (-16.0% YoY) contained inflation.

CPI growth by selected items, % MoM and YoY (Dec 2017)



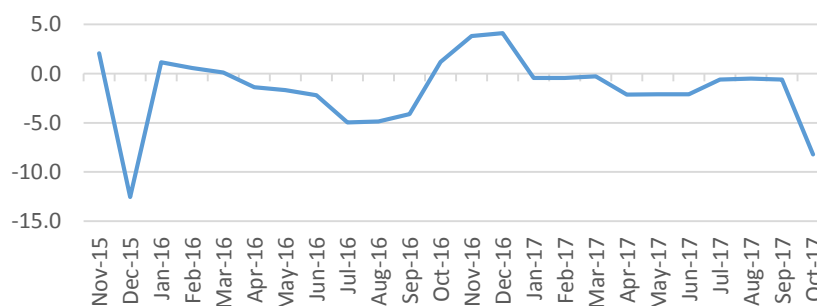
CPI growth in energy and transport, % MoM and YoY (Dec 2017)



Source: Committee on Statistics, Samruk-Kazyna

Non-food CPI was primarily driven by prices for clothing and footwear (8% YoY), which grew due to minor exchange rate volatility. Meanwhile, energy and fuel prices, which surged in September-November 2017, were reflected in CPI through utilities (7.9% YoY) and transportation (11.3% YoY) costs. Prices for gasoline moderated to KZT160-162 per liter (+17.6% YoY and -1.3% MoM) as the largest oil refinery in the country resumed its operations. However, diesel prices (+31.8% YoY and +0.5% MoM) continued to increase on the back of shortage in the fuel market. Prices are expected to moderate in early 2018 as the Pavlodar oil refinery increases production of diesel and gasoline to 5,000 tons and 4,600 tons per day respectively. Growing energy prices and utilities tariffs were factored in by businesses, which resulted in a rapid rise in prices for several types of services. Prices in hospitality (5.8% YoY and 1.3% MoM), healthcare (7.1% YoY and 0.5% MoM) and leisure (6.3% YoY and 0.4% MoM) subsectors showed the largest monthly growth in December 2017.

Dynamics of real wages, % YoY (Jan 2015 - Oct 2017)



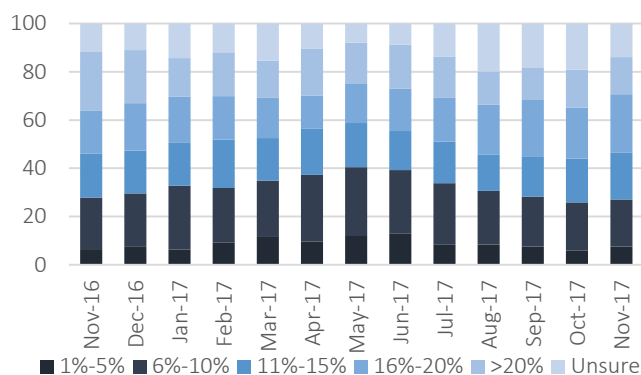
Source: Committee on Statistics, Samruk-Kazyna

Despite lower inflation in 2017 (7.1% YoY) compared to previous years (8.5% YoY in 2016 and 13.6% YoY in 2015), as well as continuous decline of real wages, inflationary expectations among the population remain elevated.

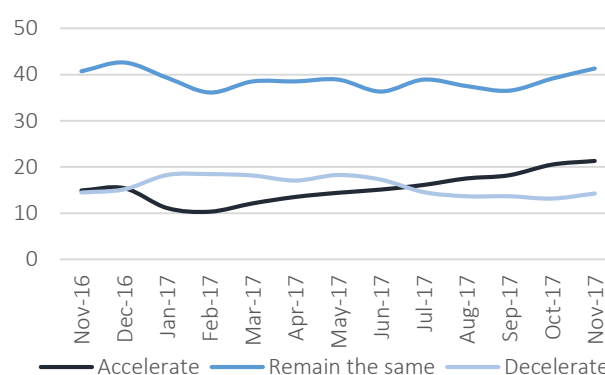
Inflationary expectations and outlook

According to the November 2017 survey conducted by NBK, inflationary expectations improved slightly. The share of respondents that expect inflation to remain below 10% in the next 12 months increased to 27.1% in November 2017 vs. 25.9% in October 2017. Concurrently, the share of respondents that expect inflation to decelerate in the next one year has grown from 13.2% in October 2017 to 14.3% in November 2017. However, the share of respondents that expect CPI growth to accelerate increased from 20.5% in October 2017 to 21.3% in November 2017.

**Expected inflation in the next 12 months, %
(Nov 2016 – Nov 2017)**



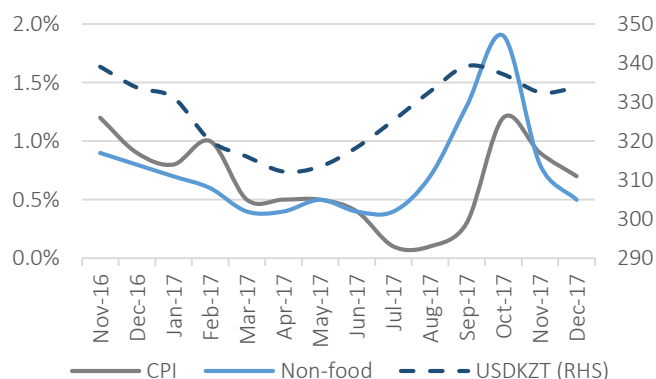
**Expected inflation dynamics in the next 12 months
(Nov 2016 – Nov 2017)**



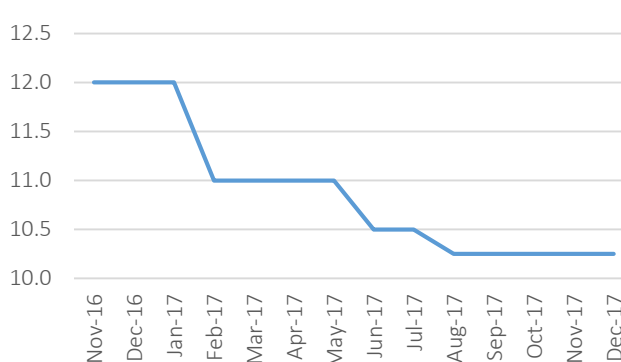
Source: National Bank of Kazakhstan, Samruk-Kazyna

Inflation expectations among population and businesses are one of the main determinants of NBK's monetary policy. Despite a slight improvement in market sentiment, inflation expectations remain elevated. In November 2017, one-year inflation expectations stood at 7.7% compared to previous expectation of 6.9% and higher than the official 2018 inflation target of 5-7%. Consequently, NBK is likely to maintain its base rate at the current level until inflation environment stabilizes further.

**CPI and non-food CPI (% MoM) vs. USDKZT
(Nov 2016 – Dec 2017)**



**NBK's base rate, %
(Nov 2016 – Dec 2017)**



Source: National Bank of Kazakhstan, Samruk-Kazyna

Inflation remained within the NBK official target of 6-8% in 2017 despite supply shocks in the domestic fuel market and exchange rate fluctuations. Looking forward, CPI growth in 2018 is anticipated to subside slightly given that external conditions, including global commodity prices, remain stable and inflation expectations among population improve. Monetary policy stance moving forward would depend on (1) stability of the national currency, (2) inflationary expectations, (3) liquidity in the money market, (4) credit growth and (5) the pace of de-dollarization in the banking sector.

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