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Competition and Inflation – Note by Kazakhstan

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This document reproduces a written contribution from Kazakhstan submitted for Item 12 of the 139th OECD Competition Committee meeting on 29-30 November 2022.

More documents related to this discussion can be found at
www.oecd.org/competition/competition-and-inflation.htm

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Kazakhstan

1. Introduction

1. Today, inflation in many world countries continues to rise, reaching historical highs. Kazakhstan belongs to the countries with a small open economy and is import-dependent in many commodity items, and therefore feels the consequences of the negative inflationary influence of external factors. Thus, in October 2022, inflation in Kazakhstan reached 18.8% year-on-year, significantly deviating from the forecast trajectory (4-6% - for 2021-2022)¹. Prices for food products increased by 23.1%, non-food products - by 17.9%, and paid services – by 13.5%².

2. The National Bank (the Central bank of Kazakhstan, whose primary goal is to ensure price stability in Kazakhstan) and the Government are jointly engaged in controlling inflation in Kazakhstan. The Agency for Protection and Development of Competition of the Republic of Kazakhstan³ (APDC, antimonopoly authority) is also actively involved by the authorities of the country in the implementation of anti-inflationary measures in the country.

2. A set of anti-inflationary measures of the National Bank and the Government

3. In order to keep inflation within the established benchmarks, the National Bank implements monetary policy. The National Bank's monetary policy includes measures aimed at regulating the value of money in the economy to ensure price stability. The main instrument of the monetary policy of the National Bank is the base rate. By setting the base rate level, the National Bank determines the target value of the short-term interbank rate to achieve the goal of ensuring price stability in the medium term.

4. Taking into account the acceleration of inflation in Kazakhstan from the second half of 2021, the National Bank gradually began to tighten its monetary policy. In 2021, the rate was increased three times to 9.75%. In 2022, in order to minimize the effects of an external shock and maintain price stability, the National Bank gradually raised the base rate to 16% (from October 27, 2022)⁴. The National Bank is also implementing measures aimed at maintaining stability in the foreign exchange market. For example, a Deposit Protection Program in the national currency has been implemented, which provides for the accrual of a premium on deposits of the population at the expense of the state budget. 1.8 million applications from depositors have been submitted under this program. The National Bank additionally takes measures to limit excessive fluctuations in the exchange rate and its transfer to inflation by including interventions.

5. The Government is also implementing a set of anti-crisis measures. These are measures aimed at maintaining control over inflation, supporting employment and creating

¹ The primary objective of the monetary policy // <https://nationalbank.kz/en/links/dkp>

² Inflation in the Republic of Kazakhstan // <https://www.gov.kz/memleket/entities/stat/press/news/details/450838?lang=en>

³ Official website of the Agency for Protection and Development of Competition of the Republic of Kazakhstan // <https://www.gov.kz/memleket/entities/zk?lang=en>

⁴ Base Rate // <https://nationalbank.kz/en/page/bazovaya-stavka>

new jobs, and developing entrepreneurship. For example, state support for the industry is provided, aimed at technological modernization and the development of high-performance enterprises. At the same time, import substitution through the industrialization of the country's economy and the implementation of investment projects is of particular importance in this matter. Projects aimed at increasing productivity and deep processing of agricultural products are supported as a priority.

6. As part of the implementation of a separate set of measures to control and reduce the level of inflation, work is underway to expand the product offer. For example, the use of a "revolving scheme" (preferential lending of retail facilities). By receiving preferential loans, retail chains assume counter obligations to curb prices for certain volumes of certain types of products. Loans in the amount of more than 90.0 million euros were issued under the "revolving scheme." In addition, the Government is implementing other measures to reduce import dependence, eliminate excessive (unproductive) mediation, etc.

3. Participation of APDC in the implementation of a set of measures to control and reduce the level of inflation

7. Antimonopoly instruments play a separate role in the implementation of a set of measures to control and reduce the level of inflation. For the most part, these are antitrust issues related to the suppression of price collusion, abuse of a dominant or monopoly position, as well as restriction of access to goods. Thus, as operational measures for 2022, the APDC is assigned an analysis for the detection of antimonopoly violations at the auction of coal, petroleum products, and electric energy.

8. As medium-term measures until the end of 2024, it is envisaged to take antitrust response measures against market entities occupying a dominant or monopolistic position in moderately and highly concentrated markets. APDC, in this direction this year, completed a number of significant investigations in the markets of rail transportation, transportation and storage of goods, the supply of petroleum products and gas, and mineral fertilizers. Materials on a number of investigations have been sent to law enforcement agencies to initiate criminal cases.

9. Currently, major investigations are being conducted on the facts of abuse of a dominant position in relation to the leading wholesale supplier of petroleum products (unjustified refusal to conclude contracts), taxi aggregator (monopolistically high price for services providing access to the service), producer of edible salt (monopolistically high price).

10. In addition, the conclusion of antimonopoly compliance is provided as preventive measures (a system of measures to prevent violations of legislation in the field of competition protection, Article 195-1 of the Entrepreneurial Code of the Republic of Kazakhstan)⁵. Since the beginning of this year, APDC has agreed on more than 200 antimonopoly compliance, including with food manufacturers, wholesale suppliers, and retail chains.

11. In general, the complex antimonopoly measures implemented by APDC allow for influencing the price situation in the commodity markets in a certain way. At the same time, the existing measures of antimonopoly response (investigation), as a rule, are implemented already upon the commission of an antimonopoly violation when the price increase has already occurred with all the consequences that follow from this. Moreover, the impact of

⁵ Entrepreneur Code of the Republic of Kazakhstan // <https://adilet.zan.kz/eng/docs/K1500000375>

antimonopoly measures is only local and short-term, without solving systemic problems in one area or another. Antimonopoly control measures can only cover commodity markets with the presence of large manufacturers and suppliers of goods. The main tool for influencing prices at the APDC is the restriction of monopolistic activity (abuse of a dominant or monopolistic position and price collusion), which is applied in the presence of a dominant position with a share of 35% or more, as well as price collusion in the presence of a market share of a market entity of at least 5%.

12. In Kazakhstan's practice, price spikes for fruit and vegetable products occur annually in the off-season, when there is a shortage (imbalance) in the domestic market, and which is replaced by more expensive imports, to the level of which domestic suppliers are also being pulled up (price growth reached, for example, for cabbage +127%, onions +60%, carrots + 40%), which gives an impulse to unwind inflation. At the same time, fruit and vegetable products in Kazakhstan belong to competitive markets, which, as noted above, excludes the possibility of applying antitrust measures to market participants.

13. The APDC has the authority to introduce temporary state regulation of prices on individual commodity markets and on the goods of individual market entities. At the same time, price regulation, being an intervention in the process of market pricing, creates prerequisites for distorting competition. For example, an analysis of the introduction of the maximum price for medical masks in 2020 showed that prices in the distribution networks were set at the threshold value, thereby excluding price competition between the sellers. Moreover, price regulation entails the risks of suppliers refusing to sell regulated goods and, as a result, creating a shortage. Price restraint by the administrative method may also contribute to the formation of deferred inflation in the future.

4. The relationship between the competitive environment and pricing in Kazakhstan

14. More recently, a study has been completed in which Kazakhstani authors tried, based on the relevant experience of foreign studies, to analyze the relationship between the competitive environment and pricing in Kazakhstan, taking into account national specifics (small open economy) for 1998-2020.

15. The study's authors chose markup and the average annual consumer price index as indicators. The study's results allowed the authors to identify a positive relationship between the average level of industry margins, including the indicator of market power, and the corresponding average price indices for 1998-2020. Thus, the study's results showed the presence of the desired relationship between the level of imperfect competition and the price level in Kazakhstan.

16. In general, it seems that competition is certainly closely related to the price situation in the markets. Broadcasting the concept of a "hypothetical monopolist," it is safe to say that in markets with inefficient competition (in highly concentrated markets), it is much easier for the main players (suppliers) to raise prices for consumers painlessly for themselves than in markets with the effective competition. In other words, in weak competition or its absence in the short term, prices will rise faster since it is easier for a market entity endowed with market power to increase the level of its marginal costs and marginality under the influence of any external factors (if any).

17. In competitive markets, such a transfer of changes in costs to price seems to occur at a slower pace. In other words, an increase in prices in a competitive market under the influence of any objective external factors will be possible at a time when the price level of suppliers reaches the level of their marginal costs, thereby excluding the possibility of obtaining any significant profit, which is explained by the need to preserve their

competitive advantages. In this regard, measures to eliminate distortions of competition can help to restrain prices in specific commodity markets on market conditions.

18. It still seems that the level of competition is not the key driving factor of inflation. Effective competition in the markets makes it possible to mitigate the impact of inflation in the long term, as noted above. But an important factor, as Kazakhstan's practice has shown, is the balance of the market, which could offset the negative impact on the price situation in the markets of various external factors. In this regard, economic policy in order to reduce inflationary pressure should be accompanied by stimulating the active development of the "supply economy" aimed at significantly increasing its self-sufficiency.

5. Conclusion

19. Many countries are entering a new stage of permanently high inflation, which is more due to the processes taking place in the world, the conditions of the so-called "new reality" rather than the conditions of competition in specific commodity markets. The use of antimonopoly measures to contain inflation in such situations, is not adequate, since they have a local and short-term impact on particular commodity markets without solving systemic problems in the industry. In turn, price regulation can only aggravate the state of commodity markets, provoking a shortage of relevant goods. At the same time, an unbalanced tariff policy in order to keep prices from rising can have very ambiguous consequences in the form of a disinflationary effect at the initial stage, but with the risk of delayed inflation, that is, an inevitable and often unexpected increase in tariffs in the medium term.

20. The existence of an unconditional relationship between the competitive environment and pricing is scientifically justified in theory and proven in practice, including in Kazakhstan. In this regard, it is necessary to make joint efforts to eliminate distortions of competition in specific commodity markets, which will mitigate the impact of inflation in the long term. At the same time, in general, economic policy should not be limited only to restraining the demand and spending of economic agents to level inflationary pressure but also, to a significant extent, should be accompanied by stimulating the active development of the "supply economy" aimed at significantly increasing its self-sufficiency.