

Disinflation has intensified in February

Assan Kurmanbekov — March 04, 2019

Inflation rate in February fell to 0.3% compared with 0.5% in January and 0.7% in December 2018. Annualized rate of growth declined to 4.8% from 5.2% in January. Main contribution to slowing in the growth of prices have come from tariffs of state monopolies, which administratively reduced since the beginning of the year.

According to the Committee on statistics, the inflation rate in February fell to 0.3% compared with 0.5% in January and 0.7% in December 2018. Annualized rate of growth declined to 4.8% from 5.2% in January. Taking into account the seasonal adjustment (sa), by our estimate, inflation was 0.3% mom. Main contribution to slowing in the growth of prices have come from tariffs of state monopolies, which administratively reduced since the beginning of the year.

In the group of food products inflation accelerated to 1.5% in February, 0.8% mom sa, providing 0.6pp in general inflation. Strengthening of price increases was provided by fruits and vegetables, which rose over the month by 5.7% mom, due to a seasonal rise in prices for vegetables, baked goods and cereals grew 1.3% mom, in anticipation of the increase of the excise on alcohol prices rose 1.2% mom, fish and seafood 1% mom decline in prices was for buckwheat (-1.3% mom), sugar (-1.3% mom), sour milk (-1.1% mom).

Prices of non-food items rose by 0.3% mom (0.5% mom), the contribution of 0.09pp in inflation. Increased the cost of household goods (+0.4% mom), medicine (+1.1% mom), clothing and footwear (+0.6% mom). Gasoline fell by 1.4% mom, diesel by 0.8% mom.

In the area of services, tariffs fell sharply by 1.3% mom (-0.2% mom sa), 0.4pp contribution to change in prices. The main factor in the reduction of tariffs were public utilities, transport, with a slight increase on other services.

Results from population surveys for January, published by the NBRK demonstrated reduction in inflationary expectations accompanied by weaker devaluation expectations. The percentage of respondents, awaiting accelerating growth of prices in the next 12 months showed the fourth consecutive month of decline to 17.2% in January (19.2% in January 2018) after reaching a peak of 28.2% in September 2018. The percentage of respondents who are waiting for either reduction or continued unchanged in prices had risen to 10.0% (9.4% in January 2018) from a minimum of 5.8% in October 2018. In January 2018 63.3% (43.8% in January 2018) of respondents expected the tenge weakening which is below 70.7% at its peak in September 2018, when tenge stood at over 380 per dollar.

Our opinion

Disinflation at the beginning of the current year is entirely artificial and due to administrative regulation of tariffs of State monopolies, in the absence of such an intervention price increase could have been at around 1% in January and February. In turn, prices for groceries for four months in a row grow at the rate above 1% with the trend to accelerate, while the prices of non-food items almost don't grow, contrary to the dynamics of the exchange rate of tenge relative to other currencies, which is on the historical maximums (about 380 to \$ and 5.7 to ruble). Thus, the inflation rate is maintained at a low level due to Government measures to curb rising prices and the lack of influence of weakening tenge on non-food items, heavily dependent on imports.

The change in leadership of the NBRK in our view will have no effect on the current monetary policy and we do not expect any changes in base rate soon. So much so that we see no prerequisites for real slowdown in prices, while the risks in the consumer market is still present.

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