

# Inflation continued to decelerate in January

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Assan Kurmanbekov — February 04, 2019

Inflation rate slowed in January 0.5% (0.7% in December), annualized rate declined to 5.2% (5.3% in 2017). The main contribution to price increase provided groceries while slight increase for non-food was offset by the decline in services tariffs.

According to the Committee on statistics, inflation rate slowed in January 0.5% (0.7% in December), annualized rate declined to 5.2% (5.3% in 2017). Taking into account the seasonal correction (sa), inflation by our estimate was 0.5% mom, the main contribution to price increase provided groceries +0.5 pp, a slight increase for non-food was offset by the decline in services tariffs.

In the group of food goods inflation in January accelerated to 1.3%, 0.5% mom sa, provided 0.5 pp in general inflation. Fruit and vegetables grew by 4.8% mom, rice +1.3% mom, eggs +2.1% mom, poultry by +1.2% mom, dairy products +0.5% mom, decline in prices happened for sugar (-1.3% mom), beets (-0.5% mom).

Prices of non-food items rose by 0.3% mom (0.4% mom), the contribution of 0.1 pp in inflation. Increased the cost of household goods (+0.7% mom), medicine (+0.8% mom), clothing and footwear (+0.5% mom).

In the area of services, tariffs have slightly decreased by 0.2% mom (0% mom sa), -0.1 pp contribution to the rise in overall prices. The main factor in the reduction - tariffs for public utilities, transport, with a small increase on other services.

Results from population surveys for December, published by the NBRK demonstrated reduction in inflationary expectations, contrary to the conservation of high devaluation expectations. The percentage of respondents, awaiting acceleration of growth of prices in the next 12 months showed decline for the third month in a row to 20.4% in December (20.3% in December 2017) after reaching a peak of 28.2% in September 2018 year. The percentage of respondents who are awaiting either decline or no change had risen to 9.1% (6.7% in December 2017.) from a minimum of 5.8% in October 2018. In December 64.3% (53.2% in December 2017) of respondents expected the US dollar appreciation that is below 70.7% peak in September 2018 when tenge briefly exceeded 380 per dollar.

## Our opinion

Inflation in the first month of the year was high for food products with growth above 1% per month, very low-key for non-food items, which may reflect the low demand for this product group at the beginning of the year. In turn the majority of tariffs of public utilities, which are regulated by the State declined, also decreased the cost of gasoline and diesel fuel where prices depend on tariffs for refining. Given that the cost of fuel at the nearby Russian market continued to grow, the artificial maintenance of domestic prices in Kazakhstan will contribute to the accumulation of imbalances in the market and lead to losses for producers, and their more abrupt price rise in perspective. Thus, the inflation rate is maintained at a low level due to Government measures to curb rising prices and the lack of pass-through of a weakening of KZT on non-food items, tenge in January weakened almost 2% on average vs. the US dollar and by 5% vs. Russian ruble since the beginning of January.

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