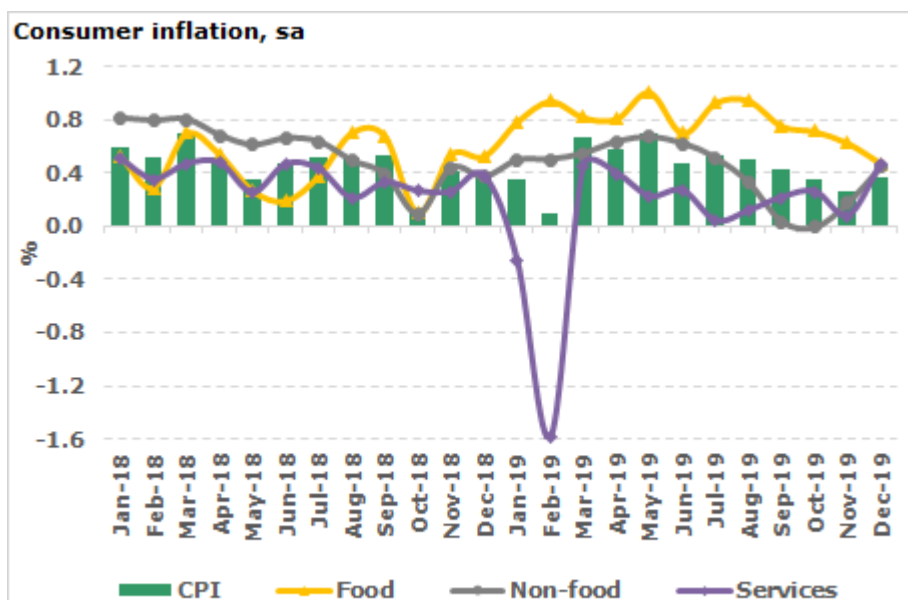


Administrative measures stabilized inflation at 5.4% in 2019

Assan Kurmanbekov — January 06, 2020

Inflation in December 2019 was 0.7% mom, unchanged from November. In annual terms, inflation amounted to 5.4% compared to 5.3% in 2018 with a minimum reading of 4.8% in 2013. Stable inflation in 2019 at the level of 5.4% was largely achieved due to government intervention, which resulted in a reduction in tariffs for state monopolies in the utilities sector (-2.7%) and lower prices for fuel (gasoline -4.6%).

According to the Committee on Statistics, inflation in December 2019 was 0.7% mom, unchanged from November. Taking into account the seasonal adjustment (sa), inflation firmed slightly in comparison with the previous month and amounted to 0.4% mom by our estimates. In annual terms, inflation amounted to 5.4% compared to 5.3% in 2018 with a minimum reading of 4.8% in 2013.



Source: CS MNE, Halyk Finance

In the group of food products, prices in December increased by 1.1% mom (+0.5% mom sa), providing 0.4pp in total inflation. Food prices — bakery products and cereals, meat, dairy products, eggs, and seasonal fruits and vegetables — continue to show high growth of prices. Price reductions were observed for rice, selected vegetables and sugar. Prices for non-food products increased by 0.6% mom (0.4% mom sa), providing a contribution to inflation of 0.18pp. The cost of clothes and shoes, household items, diesel fuel has increased. In the service sector, tariffs increased by 0.3% mom (+0.5% mom sa) with a 0.09 pp contribution to price changes. The main factors of increase: health care services, restaurants and hotels.

Consumer goods and services inflation, %						
Type of good or service	December 2019				December 2018	
	mom	momsa	ytd	yoy	ytd	yoy
All goods and services	0.7	0.4	5.4	5.4	5.3	5.3
Food products	1.1	0.5	9.6	9.6	5.1	5.1
Bakery and cereals	0.8	1.2	16.1	16.1	3.9	3.9
Meat	0.6	0.6	13.4	13.4	7.5	7.5
Fruits and vegetables	4.1	-0.6	6.3	6.3	-6.3	-6.3
Milk products	0.7	0.6	6.4	6.4	8.2	8.2
Oils, fats	0.3	0.1	5.1	5.1	8.8	8.8
Non-food products	0.6	0.7	5.0	5.0	6.4	6.4
Clothes and footwear	0.8	0.5	6.7	6.7	7.8	7.8
Household appliances	0.5	0.3	6.2	6.2	7.8	7.8
Gasoline	0.0	-0.3	-4.6	-4.6	-2.8	-2.8
Diesel	0.2	0.4	1.1	1.1	29.6	29.6
Services	0.3	0.5	0.7	0.7	4.5	4.5
House maintenance, utilities	0.2	0.6	-2.7	-2.7	3.2	3.2
Rest, leisure, culture	0.5	0.2	6.6	6.6	6.3	6.3
Education	0.0	0.3	1.8	1.8	4.6	4.6
Health care	0.5	0.4	6.6	6.6	7.1	7.1
Transportation	0.4	0.3	0.6	0.6	4.6	4.6
Telecom services	0.0	0.0	1.1	1.1	4.1	4.1

The table contains the main components of CPI

Source: CS MNE, Halyk Finance estimates

Our opinion

Stable inflation in 2019 at the level of 5.4% was largely achieved due to government intervention, which resulted in a reduction in tariffs for state monopolies in the utilities sector (-2.7%) and lower prices for fuel (gasoline -4.6%). As a result, for example, paid services increased by a modest 0.7% over the year, while in 2018 their growth was 4.5%. In fact, the difference between rising prices for services in these last two years can be considered as potential pressure on inflation, which was artificially removed from the consumer market. At the same time, costs were temporarily shifted from consumers to companies engaged in this sector. So, SamrukEnergoprofit fell by 65% yoy for 9M2019, KEGOK - by 7% yoy.

Food prices rose sharply and approached 10% in 2019 (5.1% in 2018), but signs of a decrease in their pressure are already visible. The value of non-food products grew moderately throughout the year and ended the year at 5%.

In 2020, there is high uncertainty regarding inflation dynamics associated with the need to increase utilities tariffs to cover the costs of modernizing dilapidated fixed assets. In addition, according to the Ministry of Finance, an increase in the cost of gasoline by 7% is expected due to an increase in excise taxes.

We believe that the change in regulated tariffs will occur gradually to minimize the negative impact and maintain control of prices. Our inflation forecast for 2020 is 5.5%. At the same time, inflationary risks remain on the part of state budget expenditures, which, although they should decrease by about 1pp of GDP compared to 2019, will remain at a high level due to financing the growth of salaries for state employees and increasing pensions. Against the background of the expected slowdown in the global economy, the influence of external factors on inflation by our estimates will be moderate.

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