



NATIONAL BANK OF TAJIKISTAN

Monthly Inflation Review • March 2018

In March 2018, headline inflation continued to decelerate showing deflationary trend of -1.0 percent on a month-on-month (MoM) basis for the second month in a row. In view of this, the March's year-on-year (YoY) inflation figure sharply declined to 2.5 percent down from 5.2 percent in February 2018.

A detected change in consumer prices occurred mainly due to a drop in food prices (-2.0% MoM and 1.1% YoY). At the same time, prices for nonfood products (0.1% MoM and 4.0% YoY) and services (0.4% MoM and 5.0% YoY) changed moderately.

In general, the current trend of inflation was in line with expectations. However, the pace of deceleration and its rate was lower than expected, well below the forecast and the medium-term target owing to a fall in primary needs products prices.

According to analysis, main impacting factors behind a decrease in annual inflation given firstly the higher base effect were connected mainly to following factors. Positive supply side factors, in particular output and supply of agricultural products under the moderate consumer demand condition, as well as recently amended legislation¹, which eventually brought food markets prices to a balance. Further positive external price environment, such as low inflation in the main trading partners' countries, including in the region, and stable situation in the world commodity markets for agricultural products helped to minimize inflationary pressures.

In turn the domestic foreign exchange market and national currency's stability together with prudent monetary policy implementation was conducive to decline in inflationary expectations as well.

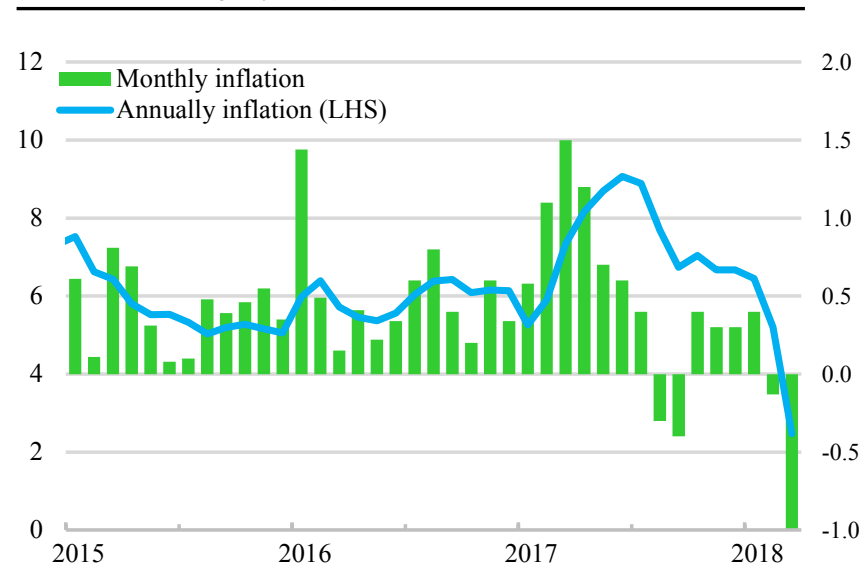
The core inflation² that reflects a long-term inflation trend excluding short-term price volatilities decreased slightly and reached 1.8 percent YoY, driven mostly by moderate change in processed foods product prices (meat, dairy, and oil products), nonfoods (cleaning materials and medicines), and services included in core inflation (personal services).

Non-core inflation dynamics (consumer goods excluded from core inflation) showed that decline in raw food products, specifically in March was the main contributing factor to headline inflation deceleration. Raw foods prices' changes occurred among other things mainly on account of decrease in prices for flour (by -5.6% MoM or -6.0%

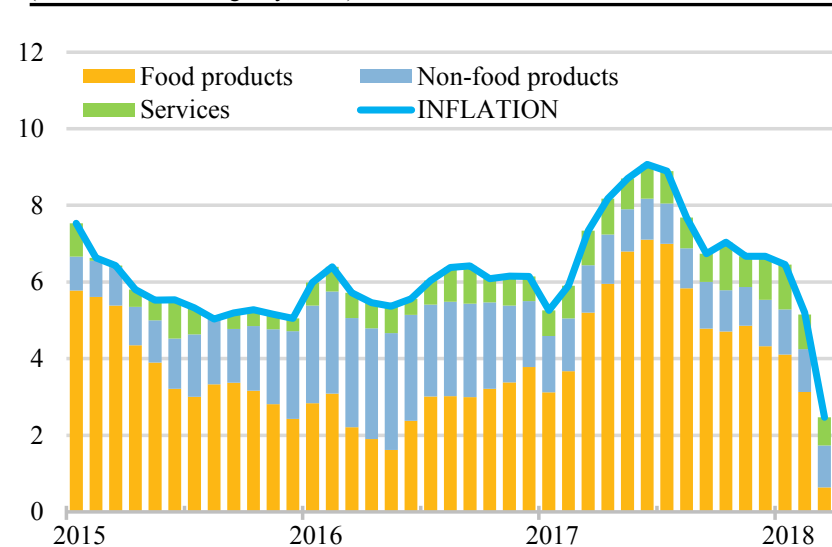
¹ Introduced amendments and additions to the Law of the RT "On the regulation of traditions, celebrations, and ceremonies in the Republic of Tajikistan" are aimed to prevention and reduction of unnecessary expenses in celebration and ceremonies, rising of living standards of the people, and improving the socio-economic situation.

² Core inflation is being used for the assessment and analysis of permanent changes in the price level by the NBT estimation based on the Statistics Agency data. As one of the inflation's main components, the core inflation reflects persistent long-term price trend without temporary fluctuation, under the impact of demand driven factors. It is estimated by exclusion method of volatile goods and services which prone to seasonal and administered factors, as well as supply-side factors (world commodity prices, natural conditions). Notably, raw food items, fuels, and administered prices are excluded from the core inflation estimation.

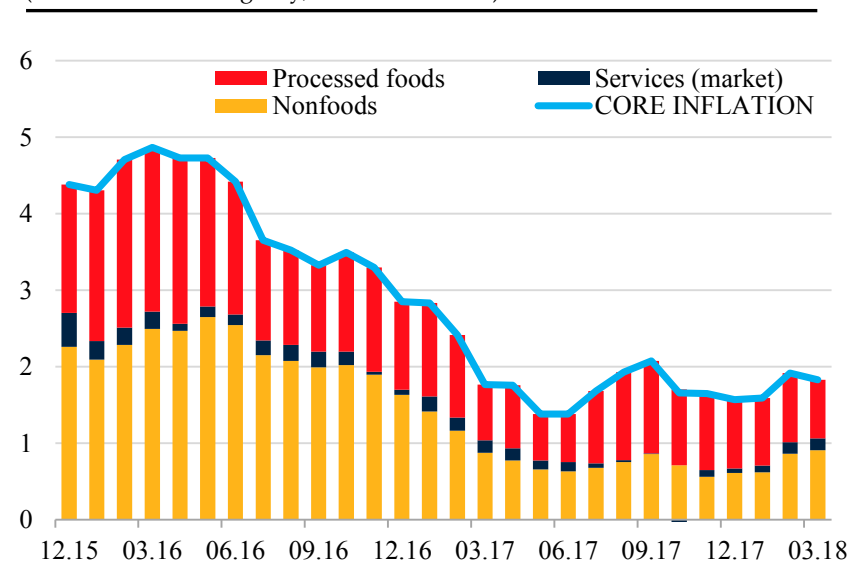
Monthly and Annual Inflation, in %
(source: Statistical Agency, NBT)



Contribution of Components to Inflation, in %, annual
(source: Statistical Agency, NBT)



Core Inflation, in %, annual
(source: Statistical Agency, NBT estimations)



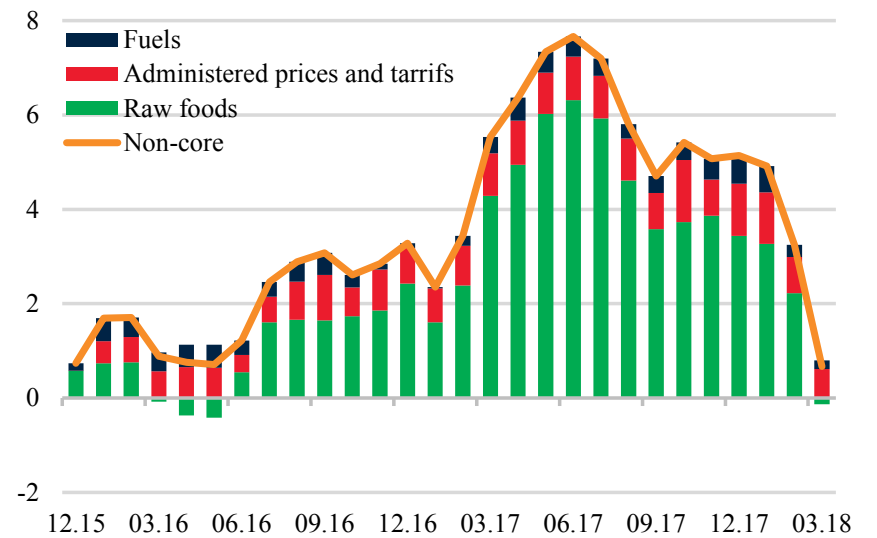
YoY), potato (by -7.0% MoM or -9.8% YoY), onions (by -27.8% MoM or 27.9% YoY), carrot (by -4.9% MoM or -26.4% YoY), eggs (by -11.2% MoM or -0.6% YoY), and sugar (by -1.8% MoM or -10.1% YoY). Along with this, due to seasonal factors increase in the prices for rice (by 2.0% MoM or 1.9% YoY), apples (by 7.3% MoM or -4.6% YoY), pear (by 5.2% MoM or -5.5% YoY), and grapes (by 2.2% MoM or 1.5 times YoY) were observed.

Prices for administered services and tariffs in March regardless of the rise in prices for passenger transportation (by 2.2% MoM or 2.3% YoY) remained unchanged (by 0.0% MoM or 0.8% YoY) due to a fall in liquified gas import prices (by -3.0% MoM or 11.7% YoY)

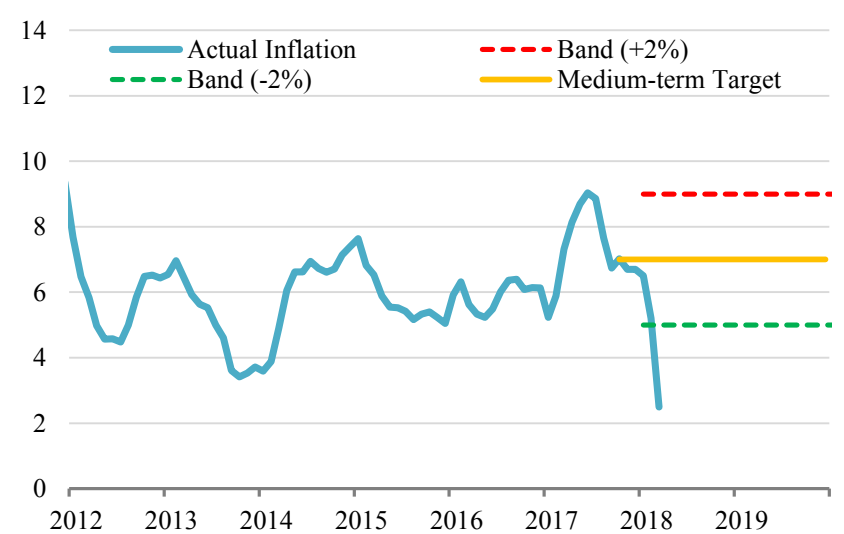
Against this background, the outlook for inflation remain moderately downside. The current decreasing trend of a headline inflation tend to be temporary in nature. According to forecast it is expected that in the near term within a year horizon inflaiton will remain below the targeted rate of 7.0% (± 2 p.p.)³. Nevertheless, starting from 2019Q1 inflation will come back to its stable rate, and hover around a targeted inflation in the medium-term. A gradual fading out of the above-mentioned temporary factors will facilitate this. At the same time, risks to the inflation forecast are connected mainly to the effect of seasonal factors and supply-side shocks, as well as with such external factors like the pace of a global monetary policy conditions and geopolitical situation in the region.

The National Bank of Tajikistan will continue to conduct a prudent and transparent monetary policy by using monetary instruments, primarily refinancing rate to regulate money market liquidity and short-term interest rates to achieve the targeted inflation level in the medium-term.

Non-core Inflation, in %, annual
(source: Statistical Agency, NBT calculations)



Medium term Inflation Target, in %, annual
(source: Statistical Agency, NBT calculations)



³ In the Monetary Policy Committee meeting held in August 2, 2017 in order to start transition period from monetary targeting to inflation targeting regime, a medium-term inflation objective have been set and announced.

Consumer price index								
	Weight, %	annual change						March, monthly change, %
		2015	2016	2017	2018			
					January	February	March	
Inflation	100,0	5,1	6,1	6,7	6,5	5,2	2,5	-1,0
Food and non-alcoholic beverages	53,1	3,8	6,4	7,7	7,3	5,4	0,9	-2,1
Bread and bread products	17,5	9,1	-2,5	-0,8	-0,9	-1,4	-3,4	-3,1
Rise	2,9	11,6	-9,2	-6,9	-7,0	-5,4	1,9	2,0
Flour	10,7	7,8	-3,0	0,3	0,2	-0,6	-6,0	-5,6
Meat and meat products	8,3	-10,2	3,7	13,8	14,0	13,4	13,5	0,0
Beef	5,4	-14,3	3,2	14,7	15,0	14,1	14,0	0,1
Eggs	1,5	5,5	12,0	1,0	0,1	1,9	-0,6	-11,2
Milk and dairy products	1,7	7,3	0,4	4,4	3,7	4,6	2,3	-2,6
Milk	0,5	16,1	-7,2	6,3	6,3	4,5	-2,2	-10,0
Plant and Animal Oil	5,7	12,7	11,3	1,3	0,0	-1,6	-2,5	-0,7
Fruit	4,3	12,3	16,7	-1,8	-0,3	3,9	6,4	2,9
Vegetables	6,6	-12,4	16,5	40,2	37,1	21,2	-6,4	-7,6
Sugar	2,4	19,3	15,0	-6,7	-7,3	-7,9	-10,1	-1,8
Soft drinks	1,3	13,7	19,9	1,6	2,7	0,3	0,6	0,3
Catering*	0,9	14,9	19,9	2,7	2,7	3,9	3,9	0,0
Alcoholic beverages and tobacco	1,4	15,9	11,8	6,2	6,2	7,1	8,0	1,0
Non-food products	29,2	7,9	5,7	4,4	4,3	4,1	4,0	0,1
Clothes and shoes	9,7	9,2	14,5	9,2	2,5	2,7	3,0	0,3
Repair and construction materials	3,7	2,2	-0,9	2,4	2,5	4,9	4,9	0,0
Detergents	1,8	15,5	1,2	4,0	3,1	4,0	4,0	0,0
Medicine	2,9	24,7	14,1	1,0	0,7	2,2	2,2	0,0
Petrol vehicles lubrication products	2,0	-7,0	2,9	27,7	25,9	17,2	14,1	0,3
Other Heating Products	1,3	19,0	3,0	0,9	0,4	-7,7	-8,1	-2,2
Vehicle	0,9	-2,0	0,0	0,0	0,0	0,1	0,1	0,0
Other personal effects	1,5	7,6	7,1	8,6	7,3	8,5	9,1	0,8
Services	15,2	2,2	4,5	7,7	7,9	6,0	5,0	0,4
Housing and communal	5,2	3,2	9,8	17,5	17,1	12,6	11,7	-0,5
Rental of property	0,2	14,3	0,0	0,0	0,0	0,0	1,4	1,4
Water and garbage collection fee	0,7	20,1	5,1	9,1	11,6	8,4	8,4	0,0
Electricity	2,6	0,0	28,6	14,7	15,0	15,0	15,0	0,0
Hot water	0,0	14,6	0,0	0,0	0,0	0,0	0,0	0,0
Gas	1,1	-6,3	-6,6	40,1	35,7	13,4	8,5	-2,8
Transport	4,4	-2,3	-1,4	2,8	5,0	3,3	0,7	1,6
communication	1,6	0,8	0,0	1,3	0,0	0,0	0,0	0,0
Education	1,6	2,6	11,3	5,3	2,0	1,5	1,5	0,0
Health	0,8	14,0	1,9	1,7	1,3	1,3	1,3	0,0
Household	1,9	12,3	5,2	1,1	0,9	1,3	1,5	0,2

* - The dining room, café and restaurant