

Instant comment

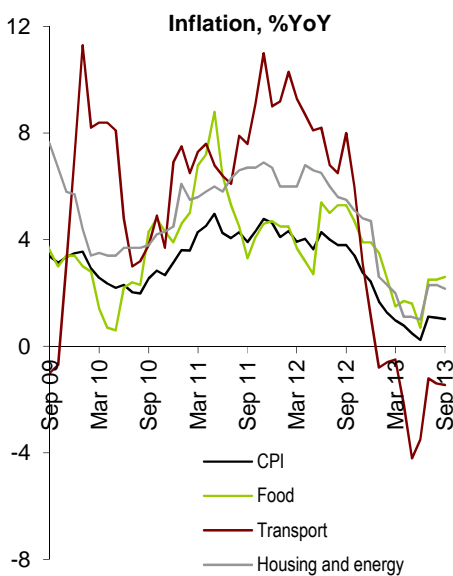
Inflation below forecast

15 October 2013

CPI inflation fell in September below forecasts, to 1.0%YoY, which was largely caused by strong reduction of costs of kindergartens after a change in education law. We still expect to see a moderate growth of inflation in subsequent quarters. While the MPC will have no reason to change monetary policy until the middle of 2014, acceleration of CPI growth above 2%, together with strengthening pace of economic growth, will most likely push the Council to hike interest rates later next year.

Inflation rate fell in September to 1.0%YoY from 1.1%YoY in August and was below expectations (our forecast at 1.2%YoY, market consensus at 1.1%YoY). The biggest surprise as compared to our estimates came from prices of education (-6.9%MoM), particularly fees for kindergartens (-17.7%MoM) which according to the CSO was due to amendment to the education law. Seasonal increase of clothing and footwear prices also proved slightly smaller than we assumed (0.7%MoM while we forecasted 1.5%MoM). Healthcare prices also surprised to the downside (-0.4%MoM vs. our forecast at +0.2%MoM). In the remaining categories prices changed roughly in line with our estimates, particularly, food and beverage prices stayed flat as compared to August, while fuel prices increased by 1.8%MoM.

The pace of prices growth has remained low and we do not see any signals yet of strengthening demand-side inflationary pressure. It is confirmed by our estimates of core inflation for September, in which we expect core CPI after excluding food and energy prices to decline to 1.3%YoY, down from 1.4%YoY observed in the last two months. The better part of September's downward inflation surprise came from one-off effect due to administrative changes (decrease in cost of kindergartens); its impact on inflation will disappear after 12 months. Equivalent effect (but of the opposite direction) took place in July, when CPI index increased due to introduction of new waste management bill. Lower than expected September's inflation reading moves down our predicted inflation path for the upcoming months. We still expect CPI inflation to increase gradually, however inflation rate might exceed 2% later than we previously expected (probably in mid-2014). In this situation, the timing of the MPC's decision about interest rate hike might to a large extent depend on the strength of economic growth and how it will be supported by revival in domestic demand.



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