



# NATIONAL BANK OF UKRAINE

## January 2017 Inflation Review<sup>1</sup>

In January 2017, headline inflation as expected accelerated to 12.6% yoy, up from 12.4% yoy in December 2016. In monthly terms, prices increased by 1.1%.

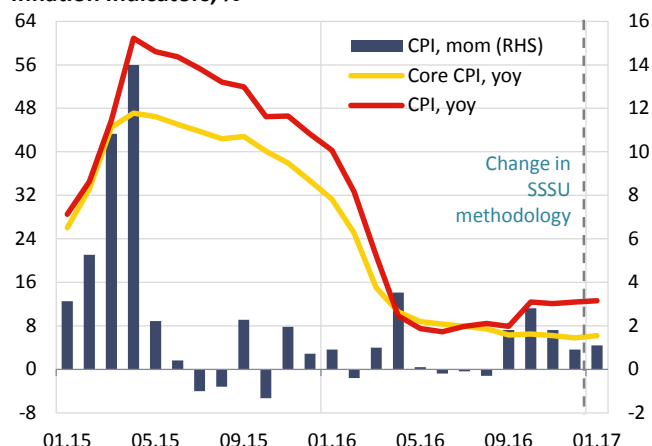
In January, consumer price inflation closely matched the projected path of annual headline inflation published by the National Bank of Ukraine in the Inflation Report (January 2017). Going forward, the NBU expects inflation to slow down to 9.1% yoy by the end of 2017, within the inflation target range of 8% ± 2 ppts, which was set out in the Monetary Policy Guidelines for 2017 and the medium term.

The slight acceleration of annual inflation in January was expected and underpinned by an increase in production costs, rising global commodity prices, including oil and food, and the weakening of the hryvnia in late 2016 and the first half of January 2017.

Core inflation in January picked up to 6.2% yoy (stood at 0.4% mom). The acceleration was due to the weakening of the hryvnia at the end of last year and early 2017, which drove upwards prices for some imported goods (e.g., vehicles, certain types of equipment, personal care products, etc.). The growth of processed foods prices also accelerated (to 5.9% yoy), reflecting the upturn in other production costs and second-round effects from an increase in some raw food prices, for instance prices for milk. Moreover, the annual pace of increase in prices for the services included in core CPI also accelerated (to 8.9% yoy). In particular, prices for catering and hotel services increased, likely spurred by higher labor costs. The annual rate of growth of prices for clothes and footwear remained flat (5.6% yoy), while in monthly terms prices recorded a seasonal decline (by 4.3% mom).

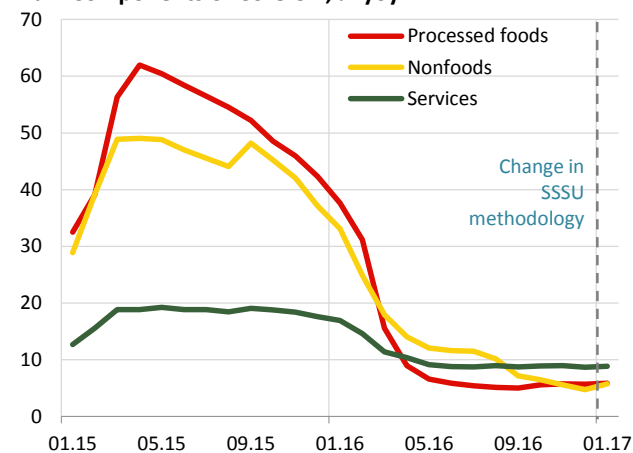
Despite the seasonal increase in monthly terms (by 3.3%), the annual growth of prices for raw foods remained unchanged at 1.2%. Thus, the growth of raw milk prices accelerated (to 23.8% yoy) driven by higher purchasing prices amid robust exports of dairy products. Prices for meat (except poultry) also sped up, reflecting an increase in production costs and stronger demand from food processing industry amid continued livestock reduction. In contrast, the annual growth of prices for poultry-related products remained unchanged, and prices for certain products (such as eggs) even declined. These price developments were attributed to export restrictions due to an unfavorable

Inflation Indicators, %



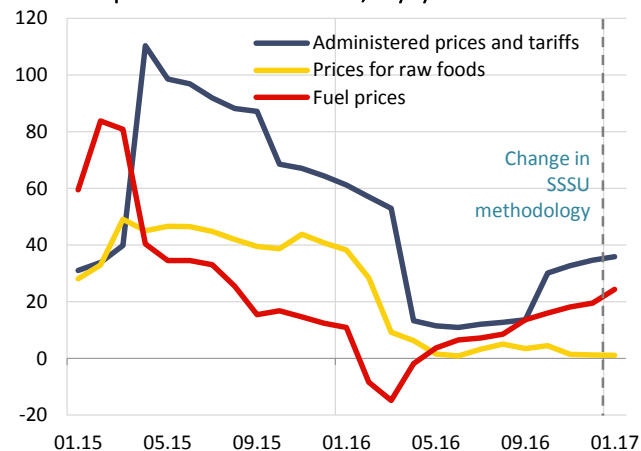
Source: SSSU.

Main Components of Core CPI, % yoy



Source: SSSU; NBU staff estimates.

Main Components of Non-Core CPI, % yoy



Source: State Statistics Service of Ukraine; NBU staff estimates

<sup>1</sup> Since January 2017, the methodology for calculating the CPI was modified. In particular, the State Statistics Service of Ukraine updated the representative set of consumer goods and services (or 'basket'), expanded the list of components of core inflation, and applied a new weight structure, based on national accounts data. For more information, see the official web-page of the [State Statistics Service of Ukraine](http://www.sssu.gov.ua).

epizootic situation. In addition, raw food inflation was restrained by low prices for vegetables (down by 25.0% yoy). In addition, as expected fruit prices kept decreasing – the decline deepened to 11.4% yoy, reflecting abundant supply of both domestically produced (primarily, apples), and imported fruits (particularly, citrus ones).

**The growth of administered prices and tariffs accelerated to 35.9% yoy (stood at 1.1% mom).** The main factor behind this acceleration was increasing fares for passenger transportation services by road underpinned by rising costs, including due to higher fuel prices. Price for tobacco products rose significantly (by 29.9% yoy), primarily due to a low base of comparison. Despite an increase in excise taxes from the beginning of the year, the annual growth rates of prices for alcoholic beverages stayed unchanged (21.7% yoy), which could be attributed to the sale of previously accumulated stocks of these products. In January, fees for preschool and primary education also increased significantly (up by 8.8% mom), particularly due to the beginning of the fiscal period. This led to a moderate pick-up in their annual price growth (to 22.0% from 21.5% in December).

**Fuel prices accelerated to 24.5% yoy (grew by 2.8% mom),** reflecting rising global oil prices and the weakening of the hryvnia in late 2016 and early January 2017.

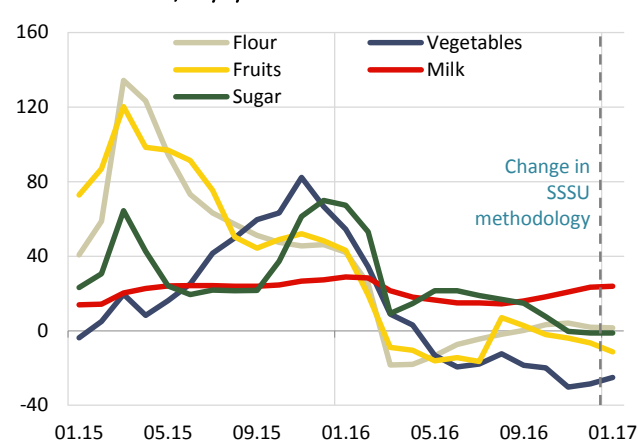
Developments of global commodity prices remained the main driver of domestic producer inflation. **In January 2017, producer prices accelerated to 36.8% yoy (from 35.7% yoy in December), despite the decline in monthly terms (by 0.3%).** In particular, higher global iron ore prices resulted in a significant annual increase in prices in domestic iron ore production (to 135.2%), while rising crude spurred an upsurge of prices in the extraction of crude oil and natural gas.

As a result, price growth in the mining industry continued to accelerate (to 109.1% yoy compared to 85.1% yoy in December). This pushed up prices in the next stages of production, particularly in metallurgy, production of coke and refined products.

The price growth in other processing industries also sped up. Thus, in January, prices in the chemical industry returned to growth (were up by 4.5% yoy compared to a 1.4% yoy decline in December), pressured upwards by global fertilizer prices.

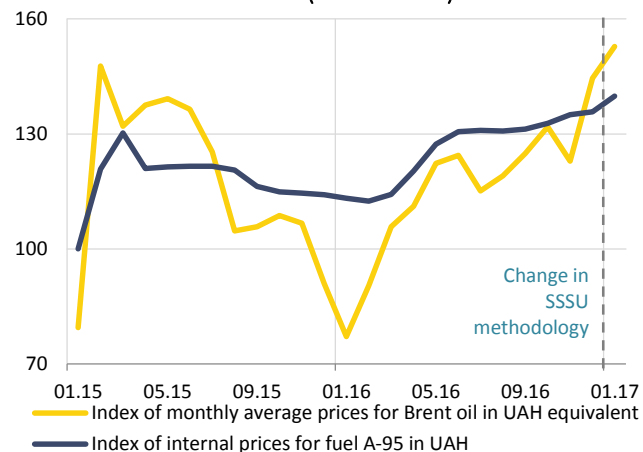
Producer prices in food industry accelerated to 16.4% yoy. In particular, price growth in the production of dairy products sped up noticeably (to 27.5% yoy) due to higher production costs, declining number of livestock, and external market pressures. Increased production costs also resulted in a faster growth in the production of meat and meat products, bakery and farinaceous products. In January, prices in the production of beverages accelerated as well, in particular

Raw Food Prices, % yoy



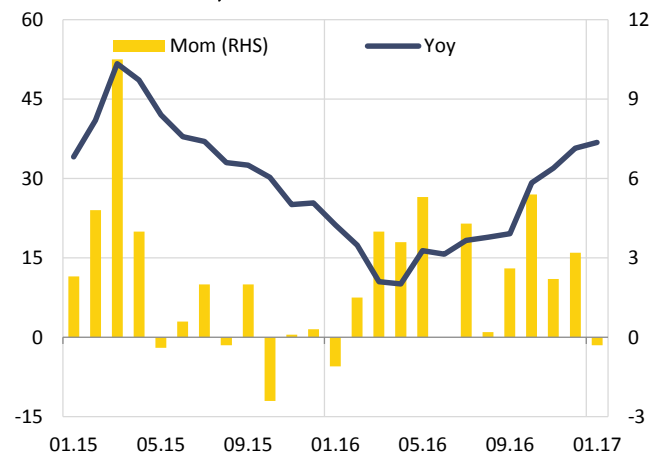
Source: State Statistics Service of Ukraine

Price Indexes for Fuel and Oil (12.2013=100)



Source: State Statistics Service of Ukraine; Thomson Reuters Datastream.

Producer Price Index, %

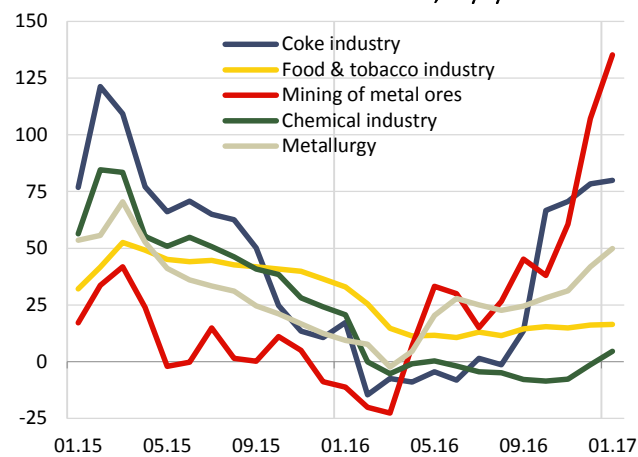


Source: State Statistics Service of Ukraine

reflecting increased excise taxes on alcoholic beverages<sup>2</sup>. Instead, price growth in the manufacture of sugar continued to slow down.

Price growth in the supply of electric power, natural gas, steam, and conditioned air decelerated to 37.1% yoy (51.5% yoy in December) due to the reduction of wholesale market prices of electric energy by the National Commission for State Regulation of Energy and Public Utilities. The reduction in electricity prices for industrial producers is attributed to a gradual elimination of cross-subsidies and alignment of electricity prices for households with prices for other consumers.

Producer Price Indexes in Select Industries, % yoy



Source: State Statistics Service of Ukraine

*The Review is a translation of the original Review in Ukrainian. In case of any discrepancies between the original document and its English translation, readers should consider the Ukrainian version of the Review as correct.*

<sup>2</sup> In this case, excise taxes are collected at the point of production, and are thus included in the total cost of production.

CPI and PPI growth by components in 2015 - 2017																		
CPI (NBU classification)																		
	Share in CPI, %		2015	yoy, %													January, mom %	
	2015-2016	2017		2016												2017**		
				January	February	March	April	May	June	July	August	September	October	November	December			January
<b>Consumer Price Index</b>	<b>100.0</b>	<b>100.0</b>	<b>43.3</b>	<b>40.3</b>	<b>32.7</b>	<b>20.9</b>	<b>9.8</b>	<b>7.5</b>	<b>6.9</b>	<b>7.9</b>	<b>8.4</b>	<b>7.9</b>	<b>8.4</b>	<b>7.9</b>	<b>12.4</b>	<b>12.4</b>	<b>12.6</b>	<b>1.1</b>
Core inflation	46.8	57.4	34.7	31.3	25.1	15.0	10.6	8.8	8.3	7.9	7.4	6.3	6.5	6.2	5.8	6.2	6.2	0.4
Non-core inflation*	53.2	42.6	49.7	46.9	38.5	25.2	9.4	6.4	5.9	7.7	9.0	9.0	17.2	16.9	17.5	18.0	2.1	
Raw foods	28.3	19.0	40.7	38.3	28.4	9.2	6.2	1.6	0.8	3.2	5.0	3.5	4.5	1.4	1.2	1.2	1.2	3.3
Administered prices and tariffs	22.5	18.6	64.4	61.2	57.0	53.0	13.3	11.4	10.9	12.0	12.7	13.6	30.1	32.8	34.6	35.9	1.1	
Fuels	2.4	5.0	12.5	11.1	-8.2	-14.7	-1.9	3.7	6.5	7.2	8.6	13.6	16.0	18.1	19.5	24.5	2.8	
CPI (State Statistics Service of Ukraine classification)																		
Food and non-alcohol	50.8	41.8	41.5	38.1	29.7	11.4	6.9	3.9	3.2	4.4	5.1	4.2	4.9	3.4	3.3	3.0	1.9	
Alcohol, tobacco	6.9	7.9	22.7	15.1	9.8	7.7	8.8	9.9	10.2	11.0	12.4	12.3	14.2	16.4	22.5	26.3	1.2	
Clothing and footwear	7.1	5.4	35.0	31.5	26.1	23.0	19.6	18.4	18.2	19.7	17.1	9.2	8.1	6.7	5.5	5.6	-4.3	
Housing, water, electricity, gas and other fuels incl.:	11.3	7.5	103.0	103.4	100.8	104.3	17.0	13.3	12.1	13.8	14.3	15.8	44.4	47.2	47.2	46.6	0.3	
Imputed rentals for housing	1.3	0.5	5.4	5.3	5.4	6.6	6.8	6.1	7.6	7.1	10.4	10.6	11.1	11.5	14.1	14.1	2.4	
Water supply	0.0	0.3	23.0	36.5	36.3	37.0	37.2	28.6	19.9	17.7	27.9	29.8	37.1	40.9	42.1	26.7	0.0	
Hot water	0.4	0.2	55.8	55.8	55.6	55.5	55.5	8.0	0.5	59.5	61.0	60.8	69.9	81.0	82.9	82.9	0.0	
Natural gas	2.3	2.1	273.0	273.0	273.0	273.0	0.0	-4.3	-4.3	-4.3	-4.3	-4.3	42.0	42.0	42.0	42.0	0.0	
Central heating	1.8	1.2	78.7	77.8	77.5	77.7	77.8	78.2	78.2	78.4	78.4	78.4	82.1	89.6	89.3	89.7	0.2	
Transport	5.1	12.1	20.4	18.5	1.8	-4.2	2.5	5.1	5.2	5.4	6.0	8.5	10.0	10.5	11.4	14.9	2.7	
Communication	3.3	3.2	7.0	6.7	5.8	4.2	4.7	4.2	4.1	3.9	3.7	3.2	1.5	1.2	4.0	4.1	0.4	
Education	1.3	1.6	24.2	24.2	20.5	19.2	17.5	16.5	16.1	15.9	15.5	13.8	13.8	13.8	13.7	12.1	1.1	
PPI																		
	Share in PPI, %***		2015	yoy, %													January, mom %	
	2015-2016	2017		2016												2017		
				January	February	March	April	May	June	July	August	September	October	November	December			January
<b>Producer Price Index</b>	<b>100.0</b>	<b>25.4</b>	<b>21.2</b>	<b>17.4</b>	<b>10.5</b>	<b>10.1</b>	<b>16.4</b>	<b>15.7</b>	<b>18.3</b>	<b>18.9</b>	<b>19.6</b>	<b>29.2</b>	<b>35.7</b>	<b>36.8</b>	<b>36.8</b>	<b>36.8</b>	<b>-0.3</b>	
Mining and quarrying	12.3	17.6	12.7	11.8	8.7	10.3	37.9	35.3	27.9	34.5	44.6	46.8	56.2	85.1	109.1	109.1	8.8	
Manufacturing of coal	2.6	-0.8	3.5	21.5	20.7	21.2	20.7	11.0	9.9	7.9	2.5	15.3	15.5	40.4	43.5	43.5	7.7	
Extraction of crude petroleum and natural gas	3.9	120.3	89.4	98.2	70.4	-11.5	47.5	51.0	51.0	52.2	65.3	72.4	68.4	76.5	123.8	123.8	8.8	
Mining of metal ores	5.7	-8.9	-11.2	-20.1	-22.7	6.9	33.2	29.9	15.0	26.6	45.2	38.0	60.6	107.2	135.2	135.2	10.1	
<b>Manufacturing</b>	<b>68.4</b>	<b>23.8</b>	<b>21.3</b>	<b>13.2</b>	<b>6.2</b>	<b>7.2</b>	<b>12.0</b>	<b>13.1</b>	<b>14.0</b>	<b>13.0</b>	<b>15.4</b>	<b>18.1</b>	<b>18.9</b>	<b>22.6</b>	<b>25.6</b>	<b>25.6</b>	<b>2.7</b>	
Manufacture of food products, beverages and tobacco products	23.6	36.4	32.9	25.5	14.7	11.3	11.6	10.7	13.0	11.5	14.4	15.5	14.8	16.2	16.4	16.4	1.3	
Manufacture of coke, and refined petroleum products	3.5	4.7	-2.3	-20.6	-10.1	-13.4	-8.6	-6.6	8.8	5.9	23.2	52.5	59.4	61.7	79.9	79.9	4.6	
Manufacture of chemicals and chemical products	4.3	24.2	20.6	-0.1	-5.3	-0.9	0.4	-1.9	-4.5	-4.9	-7.9	-8.5	-7.7	-1.4	4.5	4.5	5.5	
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.2	29.6	26.1	17.9	9.1	7.7	7.1	7.7	7.5	8.2	9.8	10.2	9.9	9.5	10.6	10.6	1.4	
Manufacture of basic metals and fabricated metal products, except machinery and equipment	18.5	12.4	9.4	7.7	-2.4	4.6	20.4	27.8	25.0	22.6	24.5	28.1	31.3	41.8	49.9	49.9	3.8	
Manufacture of transport equipment	2.6	15.5	22.1	13.0	11.9	13.3	15.2	10.3	11.3	11.3	12.1	11.5	8.5	11.4	9.1	9.1	3.1	
Electricity, gas, steam and air-conditioning supply	19.3	33.2	24.5	32.5	23.6	17.8	18.9	14.4	24.4	27.0	19.8	51.2	57.5	51.5	37.1	37.1	-12.6	

\* Revised NBU staff estimates based on the State Statistics Service of Ukraine data. The sum of contributions of CPI components may deviate from the total CPI through the use of dynamic weights according to the methodology of the SSSU and rounding.

\*\* Since January 2017, the methodology for calculating the CPI was modified. For more information, see the official web-page of the State Statistics Service of Ukraine.

\*\*\* The shares of PPI components are NBU staff estimates based on the SSSU data on volume of industrial production by type of activity for 2015.