



# NATIONAL BANK OF UKRAINE

## February 2018 Inflation Review

**In February 2018, headline inflation decelerated slightly to 14.0% yoy, from 14.1% yoy in January. The Consumer Price Index (CPI) increased 0.9% mom.**

Actual inflation came in somewhat above the NBU's forecast published in the January 2018 Inflation Report. This primarily reflected a higher-than-expected increase in prices for raw foods and fuels.

Overall, the current dynamics of headline inflation and its components signaled that inflationary pressures remained significant. At the same time, the hryvnia appreciation, which has continued through early March, helped containing these pressures. Along with other factors, the NBU's monetary policy tightening has contributed to these developments in the foreign exchange market.

**In February, core inflation decelerated to 9.7% yoy.** The annual core inflation rate slightly exceeded the NBU's forecast, however, this was primarily due to higher January readings. Month-on-month, core inflation at 0.6% in February was in line with the forecast.

Benign foreign exchange market was a major factor behind core inflation deceleration in February. The hryvnia strengthened against both the U.S. dollar and a trade weighted basket of currencies. This partially offset the impact of rising consumer demand and costs, including labor costs.

In particular, owing to the hryvnia appreciation the growth in prices for processed food products has slowed (to 12.2% yoy), as they also include imported goods, while annual rates of growth for clothing and footwear prices remained flat month-on-month (1.4% yoy). Prices for other non-foods continued to grow at a moderate pace (4.9% yoy). In contrast, service prices continued to rise at a relatively fast pace (15.0% yoy), despite a slight deceleration.

**Growth in raw food prices decelerated to 22.9% yoy in February,** albeit exceeded the forecast, same as in January. The slowdown in raw food inflation was mainly driven by slower annual rates for meat and milk prices (28.0 and 18.5% yoy, respectively), which reflected the downward trend in global prices for these products. However, prices for these products did not decelerate as much as forecasted. In addition, fruit prices grew (43.8% yoy) faster than expected, including due to a steep rise in banana prices amid lower global production. The growth of egg prices continued to accelerate (to 50.9% yoy), which primarily reflected low egg prices in February last year, due to restrictions on poultry exports from selected regions, including Ukraine, in view of the unstable epizootic situation. The growth in prices for borschch vegetables, especially cabbage, beet, and carrot picked up as well (to 22.4% yoy) due to lower supply of high-quality produce and large exports. In contrast, price growth for greenhouse vegetables, such as cucumbers, tomatoes, bell peppers, etc. slowed substantially (as a large share of greenhouse vegetables is imported). Their price developments were driven by both the significant hryvnia appreciation in February and larger imports. In addition, the decline in prices for buckwheat and sugar deepened (to 35.0% yoy and 12.3% yoy, respectively).

**Administered prices grew 16.1% yoy,** which was generally in line with the forecast. More specifically, price growth for alcoholic drinks and tobacco products slowed as expected (to 11.4% yoy and 34.3% yoy, respectively). Meanwhile, growth rates of prices for water supply and sewage collection, railway transportation, and preschool education picked up slightly.

**Fuel prices grew 21.9% yoy, unchanged from the previous month,** but exceeded the forecast as oil prices were higher than assumed in the forecast.

**In February 2018, the PPI growth slowed to 19.6% yoy, from 22.0% yoy in January.** Month on month, producer prices rose 1.2%. The slowdown in producer price inflation primarily reflected slower price growth in manufacturing. Prices in the chemical industry kept slowing (to 10.9% yoy) as global prices for fertilizers were lower than last year. Price growth in production of coke and refined products continued to decelerate (to 25.4% yoy) as annual rates of growth for prices in crude oil and natural gas extraction, as well as global oil prices, slowed.

Price growth in production of foods, beverages and tobacco products decelerated (to 10.9% yoy). This occurred, mainly, due to slower rates of growth for prices in production of meat products (to 23.5% yoy), not least due to expanding import supplies. In addition, prices in production of dairy products, as well as bakery and farinaceous products continued to rise at a slower pace (14.1% yoy for both categories). In contrast, price growth in manufacture of beverages accelerated (to 17% yoy), inter alia reflecting removal of preferential prices for alcohol for selected alcoholic beverage producers.

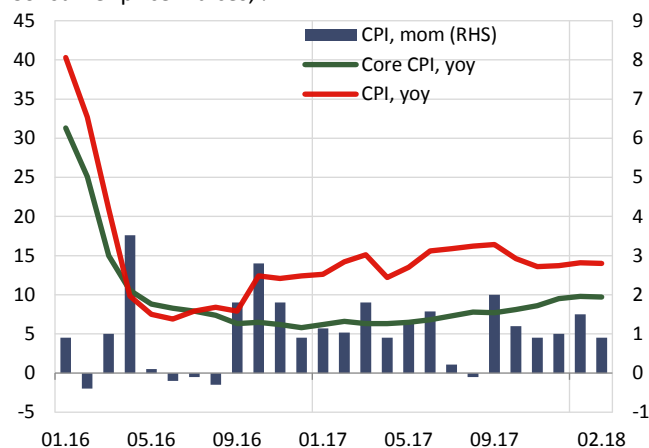
Price growth in the supply of electric power, natural gas, steam, and conditioned air slowed slightly (to 29.0% yoy) due to a higher share of nuclear power in the electricity generation, being relatively cheaper compared to other sources of energy. Meanwhile, hikes in rates for electricity generated by nuclear power stations were the main reason for high prices in electricity production.

Prices in iron ore mining rose faster (23.3% yoy) on the back of accelerating iron ore prices. That still had no effect on annual rates of growth for prices in metallurgy (down to 21.7% yoy).

*The Review is a translation of the original text 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.*

**In February 2018, headline and core inflation slightly decelerated**

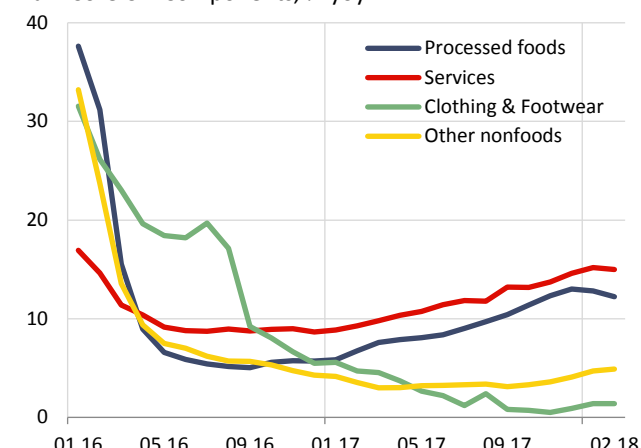
Consumer price indices, %



Source: State Statistics Service of Ukraine

**Benign foreign exchange market helped containing prices for goods and services included in the core CPI**

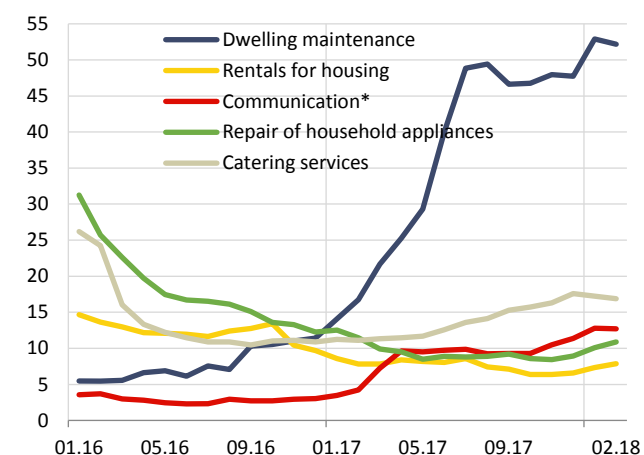
Main Core CPI Components, % yoy



Source: State Statistics Service of Ukraine; NBU staff estimates

**However, prices for most services continued to grow at a relatively fast pace**

Selected Core Services Prices, % yoy

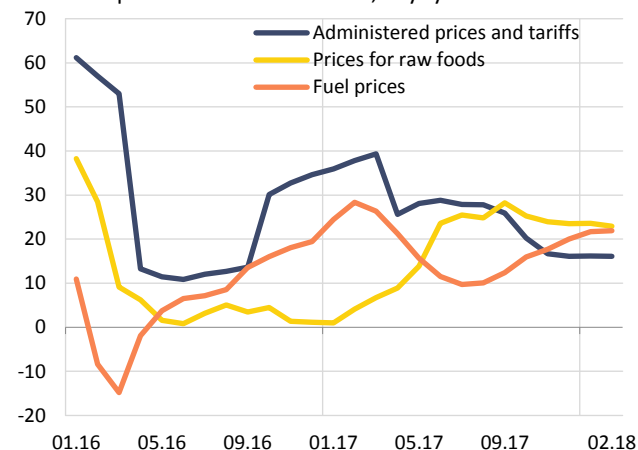


\* Communication services include mobile communications, cable television and the Internet

Source: State Statistics Service of Ukraine; NBU staff estimates

**A slowdown in headline inflation was mainly driven by more moderate growth of raw food prices, albeit their growth exceeded the forecast**

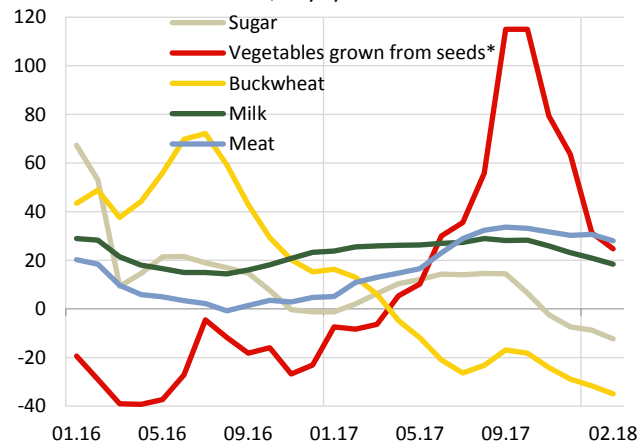
Main Components of Non-Core CPI, % yoy



Source: State Statistics Service of Ukraine; NBU staff estimates

**Price growth for meat and milk slowed, but not as much as forecasted. Prices for greenhouse vegetables (a substantial portion of these is imported) slowed, while prices for buckwheat and sugar kept falling**

Selected Raw Food Prices, % yoy

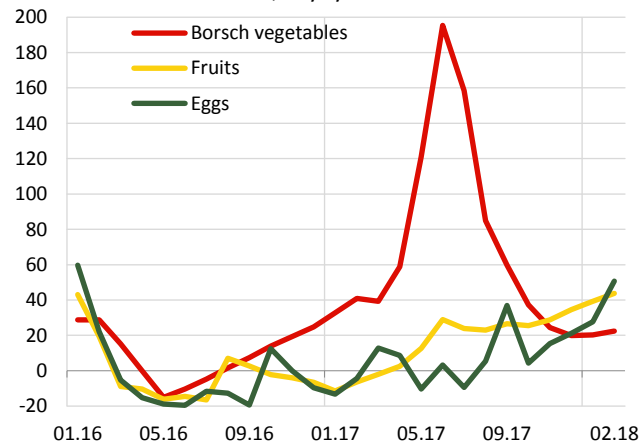


\*Includes tomatoes, cucumbers, peppers, eggplants, and zucchini

Source: State Statistics Service of Ukraine; NBU staff estimates

**However, prices for borsch vegetables accelerated (due to lower supply of high-quality produce), as did fruit prices (amid lower global banana production), and egg prices (due to low base of comparison)**

Selected Raw Food Prices, % yoy

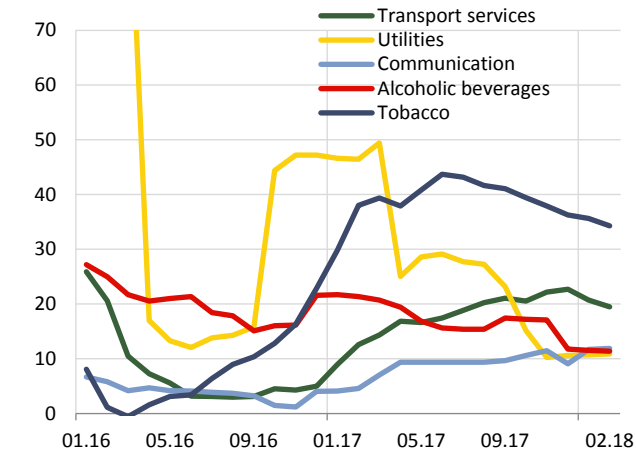


\*Includes tomatoes, cucumbers, peppers, eggplants, and zucchini

Source: State Statistics Service of Ukraine

### Rates of growth for administered prices were almost unchanged, generally in line with the forecast

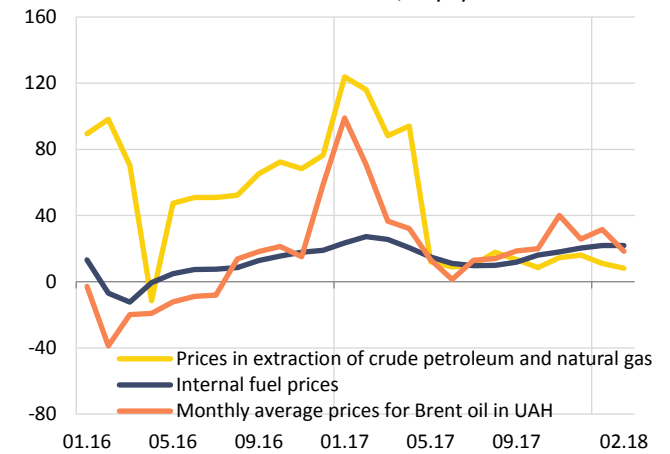
Administered Prices and Utility Tariffs, % yoy



Source: State Statistics Service of Ukraine

### Fuel prices grew faster than expected driven by a surge in global oil prices in previous periods

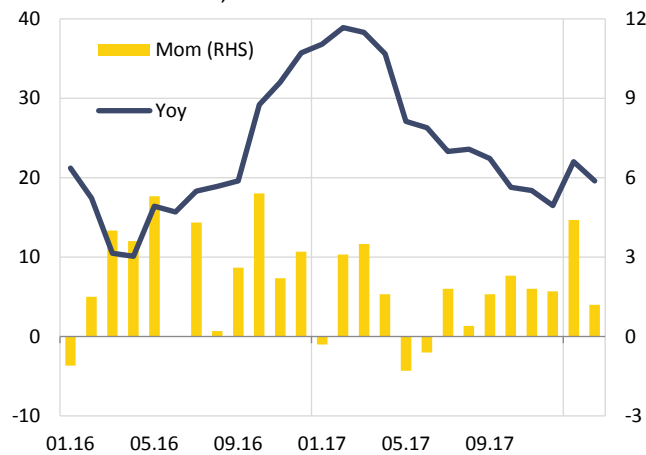
Consumer Fuel Prices, Prices in Extraction of Crude Petroleum and Natural Gas and Global Oil Prices, % yoy



Source: State Statistics Service of Ukraine, Thomson Reuters Datastream

### In February 2018, the producer price index decelerated ...

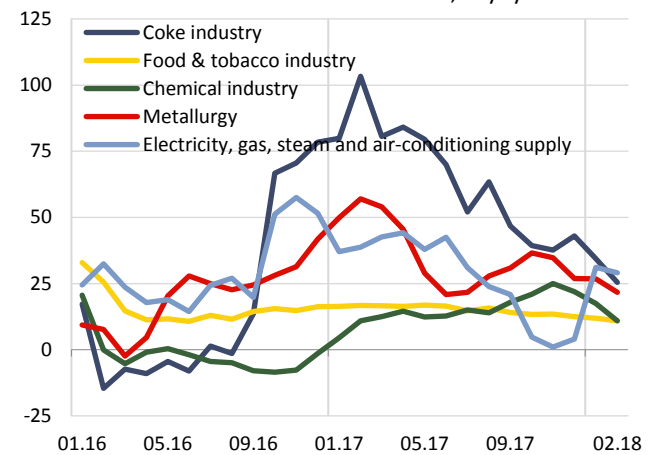
Producer Price Index, %



Source: State Statistics Service of Ukraine

### ... primarily due to the price slowdown in manufacturing

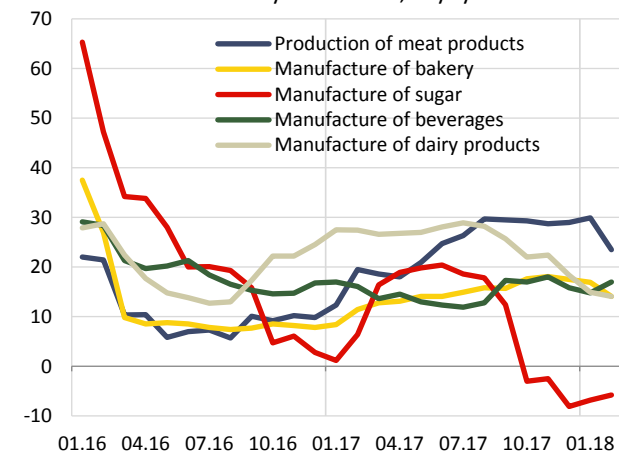
Producer Price Indexes in Select Industries, % yoy



Source: State Statistics Service of Ukraine

### Decelerating prices in most branches of food industry also contained retail food price growth

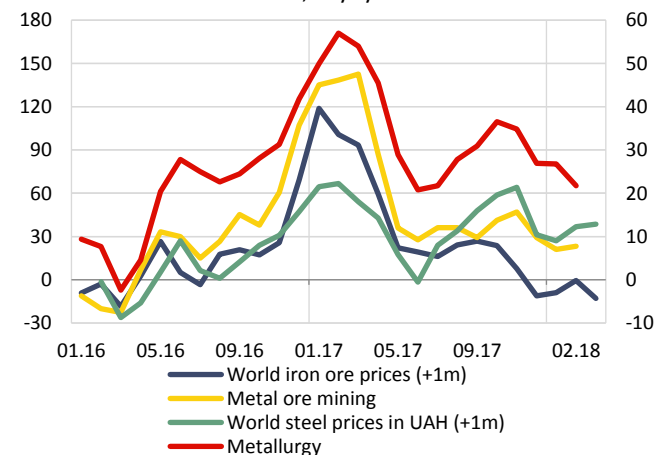
Prices in the Food Industry Subsectors, % yoy



Source: State Statistics Service of Ukraine

### Prices in mining of metal ores accelerated due to the rise in global iron ore prices, but this has not yet affected the prices in metallurgy

Prices in Selected Industries, % yoy



Source: State Statistics Service of Ukraine

CPI and PPI growth by components in 2016 - 2018						
CPI (NBU classification)						
	Share in CPI for 2018, %	yoy, %				February, mom %
		2016	2017	2018		
				January	February	
Consumer Price Index	100.0	12.4	13.7	14.1	14.0	0.9
Core inflation	58.9	5.8	9.5	9.8	9.7	0.6
Non-core inflation *	41.1	17.5	19.4	19.8	19.4	1.1
Raw foods	18.6	1.2	23.5	23.6	22.9	0.7
Administered prices and tariffs	18.5	34.6	16.1	16.2	16.1	1.2
Fuels	4.0	19.5	20.0	21.8	21.9	2.2
CPI (State Statistics Service of Ukraine classification)						
Food and non-alcohol	42.6	3.3	17.7	17.9	17.3	1.0
Alcohol, tobacco	8.3	22.5	20.7	20.6	20.2	1.4
Clothing and footwear	5.6	5.5	0.9	1.4	1.4	-2.8
Housing, water, electricity, gas and other fuels incl.:	6.1	47.2	10.6	10.7	10.9	0.4
Imputed rentals for housing	0.3	11.5	47.5	52.7	52.1	2.2
Water supply	0.2	42.1	20.2	20.6	22.8	2.1
Hot water	0.2	82.9	0.9	0.9	0.9	0.0
Natural gas	1.7	42.0	1.2	1.2	1.2	0.0
Central heating	1.1	89.3	3.8	3.7	3.7	0.1
Electricity	1.0	60.0	28.1	28.1	28.1	0.0
Transport	11.8	11.4	16.7	17.1	16.5	3.0
Communication	3.1	4.0	9.1	11.7	11.9	2.8
Education	1.5	13.7	14.9	15.3	15.3	1.4
PPI						
	Share in PPI for 2018, %**	yoy, %				February, mom %
		2016	2017	2018		
				January	February	
Producer Price Index	100.0	35.7	16.5	22.0	19.6	1.2
Mining and quarrying	14.7	85.1	30.4	23.1	23.5	2.6
Manufacturing of coal	2.5	40.4	47.8	37.1	39.1	0.2
Extraction of crude petroleum and natural gas	5.1	76.5	16.1	11.1	8.2	-2.6
Mining of metal ores	6.0	107.2	29.3	21.1	23.3	7.6
Manufacturing	65.7	22.6	18.5	18.0	15.2	1.2
Manufacture of food products, beverages and tobacco products	21.2	16.2	12.5	11.9	10.9	1.0
Manufacture of coke, and refined petroleum products	3.9	61.7	43.0	34.4	25.4	-1.3
Manufacture of chemicals and chemical products	2.8	-1.4	21.9	17.5	10.9	1.1
Manufacture of basic pharmaceutical products and pharmaceutical preparations	1.4	8.5	11.0	11.9	10.2	0.3
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.1	9.5	12.5	13.8	11.7	0.7
Manufacture of basic metals and fabricated metal products, except machinery and equipment	18.4	41.8	26.9	26.8	21.7	2.6
Manufacture of transport equipment	2.8	11.4	17.9	22.1	16.7	-0.3
Electricity, gas, steam and air-conditioning supply	19.6	51.5	4.0	31.1	29.0	0.2

\* 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.

\*\* The shares of PPI components are NBU staff estimates based on the SSSU data on volume of industrial production by type of activity for 2016.