



NATIONAL BANK OF UKRAINE

March 2016 Inflation Review

In March 2016, consumer prices increased by 1.0% m-o-m and annual headline inflation moderated to 20.9% y-o-y, down from 32.7% in February.

Actual inflation in March was consistent with our expectations, whereas the change in price indices for major CPI components slightly deviated from our estimates, primarily due to supply side factors. However, their impact is believed to be short-lived, with a high likelihood of their reversal over the next quarters. In general, Q1 data reading point to increased downside risks to the NBU end-year inflation forecast (12%).

Core inflation in March (1.9% m-o-m) exceeded our expectations for this month, offsetting its low levels recorded in previous months. High monthly volatility of core inflation is largely attributed to the dynamics of prices for "clothing and footwear". In March 2016, the latter picked up by 10.7% m-o-m mainly due to the introduction of spring season's merchandise¹. However, the rise in apparel prices was higher than expected.

Instead, the decline in raw food prices (by 1.4% m-o-m) was steeper than expected. In general, the decline in prices for "borsch vegetables" (potatoes, onions, cabbage, carrots and beetroots), eggs, and meat and meat products was in line with our estimates, while prices for bananas and tomatoes fell more than expected.

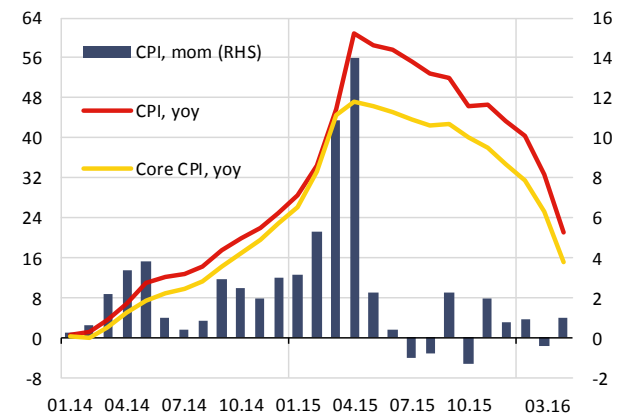
Administered prices and tariffs increased by 2.1% m-o-m, which was broadly in line with our projections. The increase was mostly driven by a 25.2% rise in electricity prices for households (effective from 1 March 2016), higher excise taxes on alcoholic beverages, and expected rise in tobacco prices following individual producers' decisions to increase prices.

In addition, as expected, domestic fuel prices rose by 1.6% m-o-m, reflecting a rebound in global oil prices observed since the second half of February.

As a result, non-core CPI went up by 0.2% m-o-m in March.

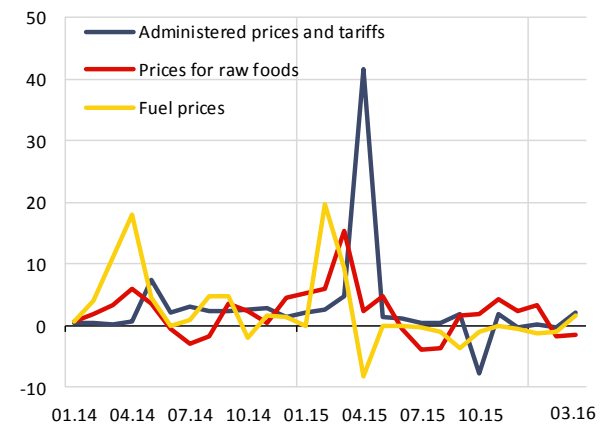
Producer price inflation accelerated to 4.0% m-o-m in March (amid a high comparison base, it slowed to 10.5% y-o-y). This m-o-m acceleration can primarily be attributed to a surge in prices for production of crude oil and natural gas, as well as of iron ore against the rise in world oil and steel prices. This, in turn, led to the rise in prices for the production of coke, refined petroleum products, and in the metallurgy industry. Price developments in other industries were rather moderate. Overall in March, price growth in the mining industry accelerated to 7.7% m-o-m, in the processing industry - to 2.7% m-o-m.

Inflation Indicators, %



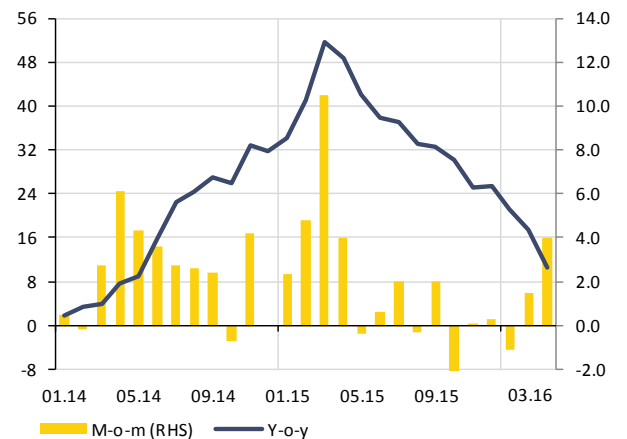
Source: State Statistics Service of Ukraine

Main Components of Non-Core CPI, % m-o-m



Source: State Statistics Service of Ukraine; NBU staff estimates

Producer Price Index, %



Source: State Statistics Service of Ukraine

¹ According to the methodological provisions of the State Statistics Service of Ukraine (available on the website of the State Statistics Service of Ukraine at <http://www.ukrstat.gov.ua/>) under Methodology and Classifiers > Statistical Methodology), price data for most spring-summer clothes and shoes are not recorded from September through February. Instead prices for 'out of season' products are imputed forward each month based on the average price movement of the available products in the same classification group.

CPI and PPI growth by components in 2015-16																		
CPI (NBU classification)																		
	Share in CPI, %	m-o-m, %															March, y-o-y %	
		2015												2016				
		January	February	March	April	May	June	July	August	September	October	November	December	January	February	March		
Consumer Price Index	100.0	3.1	5.3	10.8	14.0	2.2	0.4	-1.0	-0.8	2.3	-1.3	2.0	0.7	0.9	-0.4	1.0	20.9	
Core inflation	46.8	2.6	5.4	10.8	4.6	1.9	0.4	-0.1	0.2	3.0	0.8	0.7	0.4	0.0	0.4	1.9	15.0	
Non-core inflation*	53.2	3.6	5.2	10.8	22.5	2.5	0.1	-1.6	-1.6	1.7	-3.0	3.0	1.0	1.8	-1.0	0.2	21.3	
Raw foods	28.3	5.2	6.0	15.4	3.1	3.8	-0.6	-4.0	-3.7	1.8	1.9	4.3	2.4	3.5	-1.8	-1.4	9.3	
Administered prices and tariffs	22.5	2.1	2.7	4.9	53.9	1.2	1.4	0.6	0.4	2.0	-7.7	1.9	-0.3	0.1	-0.2	2.1	43.4	
Fuels	2.4	0.0	19.8	9.3	-8.3	0.1	0.0	-0.2	-1.1	-3.6	-1.0	0.0	-0.6	-1.3	-1.0	1.6	-14.7	
CPI (State Statistics Service of Ukraine classification)																		
Food and non-alcohol	50.8	4.7	5.7	15.6	4.4	3.1	0.0	-2.0	-1.7	1.2	1.1	2.5	1.7	2.2	-0.7	-0.7	11.4	
Alcohol, tobacco	6.9	4.6	3.4	3.3	1.8	2.2	2.5	1.7	1.1	2.2	0.5	-0.6	-1.9	-1.9	-1.3	1.3	7.7	
Clothing and footwear	7.1	-1.9	2.2	13.5	4.6	1.0	-1.8	-4.7	-1.2	18.3	3.6	0.8	-1.7	-4.4	-2.0	10.7	23.0	
Housing, water, electricity, gas and other fuels incl.:	11.3	0.5	1.6	1.1	109.7	1.2	1.2	0.2	0.2	2.4	-13.8	3.3	0.0	0.7	0.3	2.9	104.3	
Imputed rentals for housing	1.3	0.1	0.3	0.1	0.9	0.9	1.3	0.7	0.6	0.3	0.1	0.0	0.0	0.0	0.3	0.2	5.4	
Water supply	0.0	1.0	2.1	0.2	0.2	7.0	7.8	2.1	0.0	0.8	0.1	0.2	-0.2	12.1	1.9	0.7	37.0	
Hot water	0.4	0.0	0.0	0.0	0.0	44.3	7.5	0.0	0.0	0.0	0.2	0.1	0.0	0.0	-0.1	-0.1	55.5	
Natural gas	2.3	0.0	0.0	0.0	453.4	0.0	0.0	0.0	0.0	0.0	-32.6	0.0	0.0	0.0	0.0	0.0	273.0	
Central heating	1.8	0.5	0.1	-0.2	-0.1	-0.2	0.0	0.0	0.0	0.0	49.1	19.7	0.0	0.0	-0.1	-0.1	77.7	
Transport	5.1	1.2	16.4	7.4	-4.3	0.2	1.1	0.2	-0.3	-1.6	-0.6	0.6	-0.1	-0.4	0.0	1.0	-4.2	
Communication	3.3	0.6	0.9	1.7	0.0	0.6	0.1	0.1	0.1	0.6	1.7	0.4	0.0	0.3	0.1	0.1	4.2	
Education	1.3	2.5	4.1	2.0	1.8	1.5	1.5	0.7	0.1	6.9	0.5	0.3	0.2	2.5	1.0	0.9	19.2	
PPI																		
	Share in PPI, %**	m-o-m, %															March, y-o-y %	
		2015												2016				
		January	February	March	April	May	June	July	August	September	October	November	December	January	February	March		
Producer Price Index	100.0	2.3	4.8	10.5	4.0	-0.4	0.6	2.0	-0.3	2.0	-2.4	0.1	0.3	-1.1	1.5	4.0	10.5	
Mining and quarrying	13.0	0.4	7.3	10.8	11.5	-4.3	-0.1	1.6	-3.2	0.7	-0.7	-1.8	-4.2	-3.7	6.4	7.7	8.7	
Manufacturing of coal	3.2	1.1	-0.2	1.1	-0.3	0.4	-0.1	0.1	0.1	5.5	-5.4	-0.2	-2.6	5.4	17.2	0.4	20.7	
Extraction of crude petroleum and natural gas	2.6	-0.2	-1.0	31.2	86.2	1.3	-1.2	-0.4	-5.5	-1.2	0.9	0.2	-3.0	-14.2	3.6	12.8	70.4	
Mining of metal ores	6.1	-0.4	15.7	12.7	-7.9	-13.9	1.2	4.6	-3.8	-1.6	1.8	-5.7	-8.0	-3.0	4.2	8.9	-22.7	
Manufacturing	68.2	2.2	8.4	9.5	1.3	-0.4	0.6	0.2	0.2	0.0	0.0	0.4	-0.2	0.2	1.1	2.7	6.2	
Manufacture of food products, beverages and tobacco products	21.5	3.8	7.8	10.7	3.3	0.0	1.2	0.6	1.3	0.7	0.6	1.5	0.5	1.1	1.8	1.2	14.7	
Manufacture of coke, and refined petroleum products	3.7	0.7	15.2	2.4	0.2	-3.7	0.2	-0.5	-1.7	-2.3	-0.8	-1.3	-2.5	-6.0	-6.4	16.0	-10.1	
Manufacture of chemicals and chemical products	3.9	2.5	21.9	5.9	-4.7	0.4	1.6	-0.8	0.0	0.3	-0.2	-2.0	-0.7	-0.5	1.0	0.4	-5.3	
Manufacture of rubber and plastics products, and other non-metallic mineral products	4.8	3.2	8.6	9.4	3.3	0.7	0.0	0.7	-0.2	0.0	0.1	0.7	0.4	0.4	1.6	1.2	9.1	
Manufacture of basic metals and fabricated metal products, except machinery and equipment	19.2	0.9	3.6	14.6	0.4	-1.5	-0.9	-0.5	-0.4	-0.9	-0.8	-0.6	-1.1	-1.8	1.9	3.9	-2.4	
Manufacture of transport equipment	3.2	-0.4	6.7	1.6	0.6	0.5	2.3	0.4	0.1	0.1	0.1	2.1	0.7	5.3	-1.2	0.7	11.9	
Electricity, gas, steam and air-conditioning supply	18.8	3.4	-5.5	13.4	7.9	1.5	0.8	7.0	-0.1	7.5	-8.7	0.3	3.3	-3.4	0.6	5.7	23.6	
* NBU staff preliminary estimates based on State Statistics Service of Ukraine.																		
** The shares of PPI components are NBU staff estimates based on SSSU data on volume of industrial production by type of activity for 2014.																		