



NATIONAL BANK OF UKRAINE

March 2017 Inflation Review

In March 2017, headline inflation accelerated to 15.1% yoy, up from 14.2% yoy in February. In monthly terms, prices increased by 1.8%.

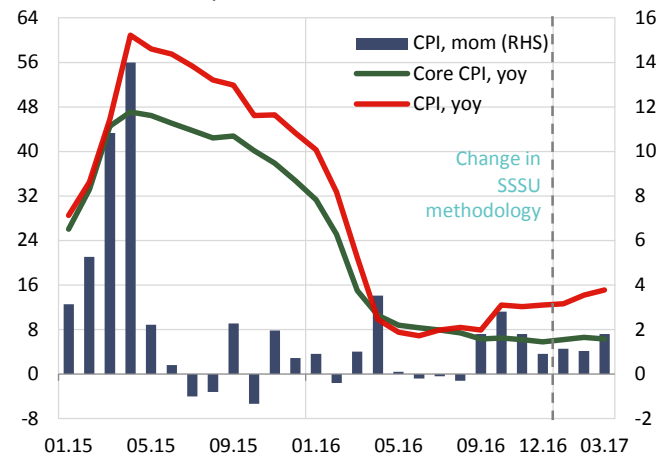
Inflation acceleration in annual terms was expected. Raw food prices speeded up amid increasing production costs, robust exports and the low base of comparison. Moreover, a further pick-up in administered inflation reflected scheduled increases in some tariffs and excise taxes. Instead, improved conditions in global commodity markets, which resulted in the strengthening of the hryvnia in February and March, restrained the core inflation.

However, actual inflation was slightly below the projected path of annual headline inflation published by the National Bank of Ukraine in the Inflation Report (January 2017), envisaging a slowdown in the annual CPI to 9.1% by the end of 2017. This can be explained by a number of supply-side factors resulting in lower than projected growth of raw food prices. The changes of methodology for calculating the CPI by the State Statistics Service of Ukraine was an additional factor. However, according to NBU estimates, this effect will fade away in the second half of 2017.

Core inflation slowed down to 6.3% yoy (stood at 1.7% mom). The slowdown was mainly due to the strengthening of the hryvnia in February-March 2017. It contributed to deceleration in the annual growth of prices for some imported goods (to 3.2%), particularly clothing and footwear, textiles, household appliances, pharmaceutical and medical products. Furthermore, prices for some goods even declined in annual terms (vehicles from EU, audiovisual equipment, information processing equipment). At the same time, as expected processed food prices continued to accelerate (to 7.5% yoy) reflecting second-round effects from an increase in selected unprocessed food prices, such as raw milk and meat prices. Annual price growth for selected services included in the core CPI also accelerated (to 9.8%). In particular, prices for restaurants and hotels, hairdressing salons, notary, taxi, household services, and tariffs for telecommunication services increased in March amid higher operating costs, in particular, due to labor costs.

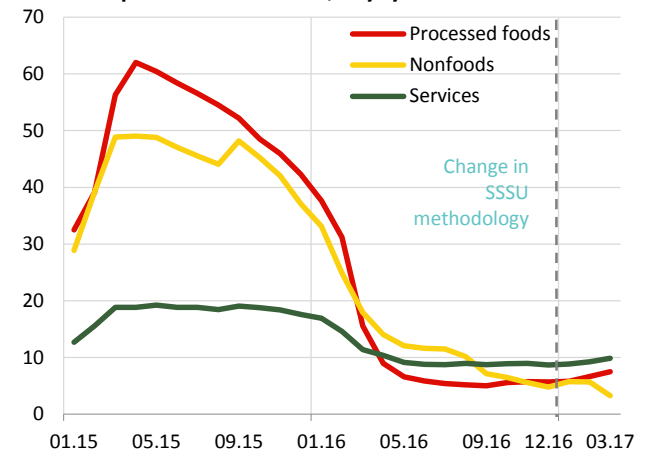
Prices for raw foods accelerated to 7.5% yoy in March (were up by 1.0% mom). This acceleration was primarily due to a low base of comparison as a result of trade and transit restrictions imposed by Russia in January 2016 not only on Ukrainian but also Turkish goods. Hence, as expected, the decline in prices for fruit and vegetables continued to slow down in annual terms (to 19.4% and 2.0%, respectively). However, prices for these products were lower than last year due to ample supply, particularly considering steep temperature growth earlier than last year. In addition, prices for meat and raw milk sped up (to 13.3% yoy and 25.9% yoy, respectively), reflecting an increase in production costs, ongoing livestock reduction, and robust exports. As partial export restrictions on poultry-related products were maintained, prices for eggs continued to decline in monthly terms. Nevertheless, the

Inflation Indicators, %



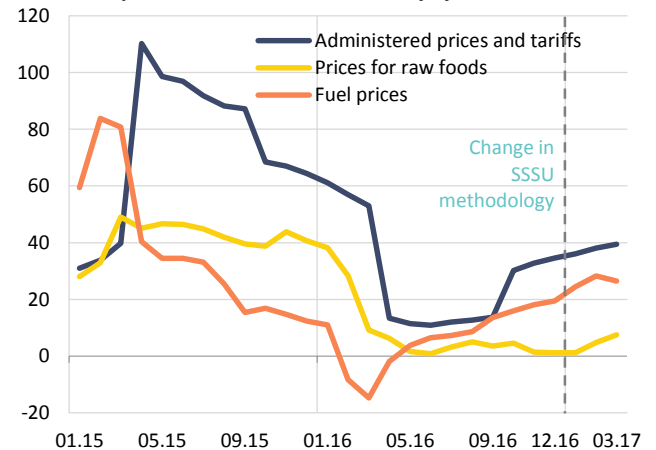
Source: SSSU

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

low base of comparison led to their growth in annual terms (by 12.9%).

The growth of administered prices and tariffs accelerated to 39.5% yoy (stood at 3.2% mom). In March 2017, electricity tariffs for the households were increased as planned. In addition, as in the previous month, an important factor behind administered prices acceleration was the increase in fares for passenger road transportation services, driven by rising costs. In March, prices for postal services also significantly increased. Particularly, "Ukrposhta" JSC raised tariffs for its services on March 24 due to increased labor costs¹. In addition, prices for tobacco products kept rising (by 39.4% yoy), reflecting lagged effects of an increase in excise taxes at the beginning of the year. However, despite the increase in excise taxes on alcoholic beverages, prices of these products even slowed down (to 20.7% yoy), which could be attributed to the sale of inventories, accumulated prior to the tax increase, and a still favorable markup following the increase in minimum prices in December 2016.

Fuel prices remained unchanged in March, causing their annual growth to decelerate (to 26.4%).

In March 2017, the producer price index growth moderately decelerated (to 38.3% yoy from 38.3% yoy in February). Producer prices grew by 3.5% mom. As in previous months, the PPI dynamics was mainly driven by global commodity price developments. In particular, rising global iron ore prices led to significant price growth acceleration in domestic iron ore production (to 142.6% yoy). However, a slight decrease of world oil prices alongside the strengthening of the hryvnia contributed to the slowdown in prices in the extraction of crude oil and natural gas to 88.3% yoy (from 116% yoy in February). The price increase in the coal mining slowed to 20.5% yoy.

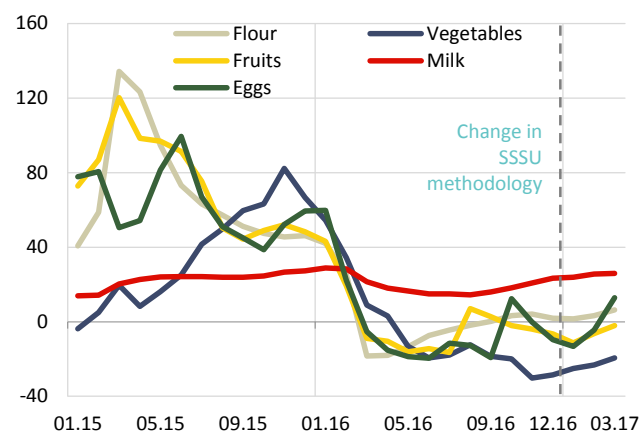
Overall, the price growth in the mining industry decelerated but remained high (94.7% yoy compared with 101% yoy in February). These developments spilled over into the prices in the next stages of production, particularly in metallurgy (to 54.0% yoy from 57.0% yoy in February), production of coke and refined products (to 80.6% yoy from 103% yoy in February).

Prices in the chemical industry continued to rise (to 12.5% yoy) amid higher world prices for fertilizers.

Producer prices in food processing industry remained almost unchanged (stood at 16.6% yoy compared with 16.7% yoy in February), although diverged across selected industries. In particular, prices in the production of bakery and farinaceous products accelerated noticeably due to increased production costs. The latter contributed to the price growth in the production of sugar as well, which was also underpinned by robust foreign demand for Ukrainian sugar. However, prices in the production of meat, dairy products, and beverages decelerated amid moderate improvement in animal production.

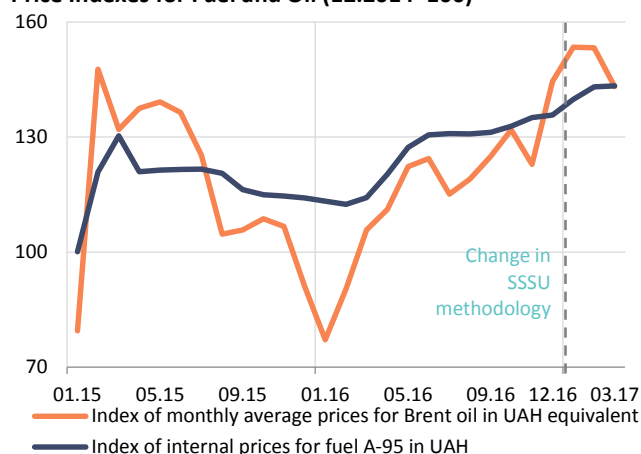
Price growth in the supply of electric power, natural gas, steam, and conditioned air accelerated to 42.6% yoy in March (38.7% yoy

Raw Food Prices, % yoy



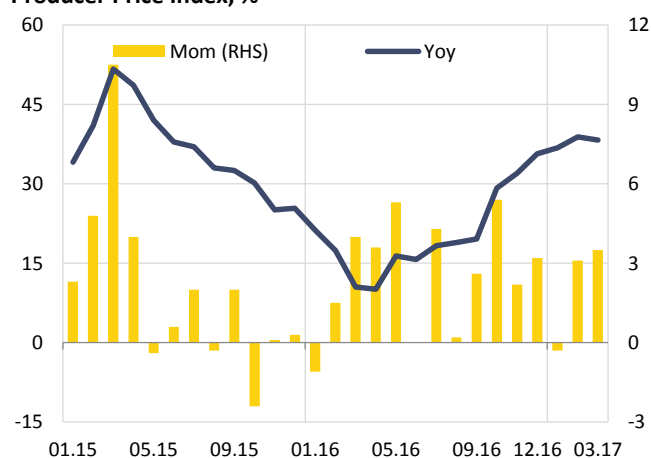
Source: State Statistics Service of Ukraine

Price Indexes for Fuel and Oil (12.2014=100)



Source: State Statistics Service of Ukraine; Thomson Reuters Datastream

Producer Price Index, %



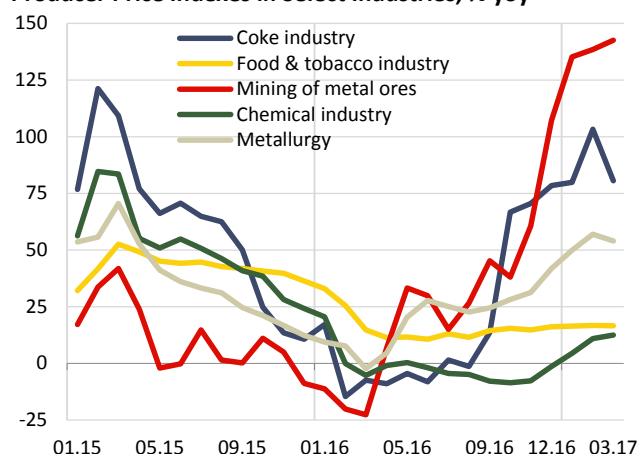
Source: State Statistics Service of Ukraine

¹ Labor costs with payroll charge cover about 70% of the cost structure of Ukrposhta. Thus, increase in minimum wages has a significant impact on the cost of postal services provided by Ukrposhta. For more information, see: <http://ukrposhta.ua/zmineni-tarifi-na-universalni-poslugi-poshtovogo-zvyazku-nabuli-chinnosti>.

in February) due to increased production costs, particularly upsurge in import coal prices.

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.

Producer Price Indexes in Select Industries, % yoy



Source: State Statistics Service of Ukraine

CPI and PPI growth by components in 2015 - 2017							
CPI (NBU classification)							
	Share in CPI, %	yoy, %					March, mom %
		2015	2016	2017**			
				January	February	March	
Consumer Price Index	100.0	43.3	12.4	12.6	14.2	15.1	1.8
Core inflation	57.4	34.7	5.8	6.2	6.4	6.3	1.7
Non-core inflation*	42.6	49.7	17.5	18.0	21.3	23.2	1.9
Raw foods	19.0	40.7	1.2	1.2	4.7	7.5	1.0
Administered prices and tariffs	18.6	64.4	34.6	35.9	38.1	39.5	3.2
Fuels	5.0	12.5	19.5	24.5	28.4	26.3	0.0
CPI (State Statistics Service of Ukraine classification)							
Food and non-alcohol	41.8	41.5	3.3	3.0	5.3	7.2	1.1
Alcohol, tobacco	7.9	22.7	22.5	26.3	30.2	30.2	1.3
Clothing and footwear	5.4	35.0	5.5	5.6	4.7	4.5	10.5
Housing, water, electricity, gas and other fuels incl.:	7.5	103.0	47.2	46.6	46.5	49.5	5.0
Imputed rentals for housing	0.5	5.4	11.5	14.1	16.8	21.7	4.4
Water supply	0.3	23.0	42.1	26.7	24.7	24.1	0.2
Hot water	0.2	55.8	82.9	82.9	83.2	83.3	0.0
Natural gas	2.1	273.0	42.0	42.0	42.0	42.0	0.0
Central heating	1.2	78.7	89.3	89.7	90.1	90.2	0.0
Electricity	1.0	66.9	60.0	60.0	60.0	63.7	28.1
Transport	12.1	20.4	11.4	14.9	17.2	16.8	0.7
Communication	3.2	7.0	4.0	4.1	4.6	7.1	2.5
Education	1.6	24.2	13.7	12.1	11.5	10.7	0.2
PPI							
	Share in PPI, %***	yoy, %					March, mom %
		2015	2016	2017			
				January	February	March	
Producer Price Index	100.0	25.4	35.7	36.8	38.9	38.3	3.5
Mining and quarrying	13.2	17.6	85.1	109.1	101.0	94.7	4.3
Manufacturing of coal	2.4	-0.8	40.4	43.5	21.0	20.5	0.0
Extraction of crude petroleum and natural gas	4.7	120.3	76.5	123.8	116.2	88.3	-1.7
Mining of metal ores	5.1	-8.9	107.2	135.2	138.5	142.6	10.8
Manufacturing	65.1	23.8	22.6	25.6	28.9	27.5	1.5
Manufacture of food products, beverages and tobacco products	21.8	36.4	16.2	16.4	16.7	16.6	1.1
Manufacture of coke, and refined petroleum products	3.4	4.7	61.7	79.9	103.3	80.6	3.1
Manufacture of chemicals and chemical products	3.2	24.2	-1.4	4.5	10.9	12.5	1.8
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.2	29.6	9.5	10.6	11.7	12.2	1.7
Manufacture of basic metals and fabricated metal products, except machinery and equipment	17.3	12.4	41.8	49.9	57.0	54.0	1.9
Manufacture of transport equipment	2.2	15.5	11.4	9.1	15.4	14.5	-0.1
Electricity, gas, steam and air-conditioning supply	21.8	33.2	51.5	37.1	38.7	42.6	8.7

* 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 2016.