

In March, headline inflation slowed to 13.2% yoy, down from 14.0% yoy in February. In monthly terms, the Consumer Price Index rose 1.1%.

Despite a slight slowdown, actual annual inflation has remained somewhat above the forecast published in the January 2018 Inflation Report and the NBU's targets.

A larger-than-expected increase in food prices was the main reason for high inflation. Continued growth in production costs, particularly labor costs, also contributed to the inflationary pressure. A fast recovery in consumer demand on the back of the increased social standards affected prices as well. Inflation expectations of some groups of economic entities remained high.

Meanwhile, the NBU's tight monetary policy helped contain the inflationary pressure, in particular via the exchange rate channel. The previous key policy rate hikes have expectedly made hryvnia financial instruments more attractive, which encouraged foreign capital inflows. Coupled with an increase in exporters' foreign currency revenues, this caused the depreciation trend of the hryvnia to reverse since late January 2018 and the hryvnia to appreciate thereafter. The strengthening of the hryvnia, both against the US dollar and the currencies of Ukraine's trading partners, was mainly reflected in the prices of fuels (slowed to 18.9% yoy) and imported goods.

In March, core inflation slowed to 9.4% yoy. The March core inflation reading matched the NBU's expectations and offset previous deviations. The decline in core inflation was primarily due to substantially lower imported inflation. More specifically, the pace of growth in prices for clothing and footwear, which had been weak in the previous months, decelerated even more to 0.5% yoy. Prices for processed foods also grew slightly slower (11.8% yoy), driven by the exchange rate dynamics and increasing supplies of imported raw materials.

The hryvnia appreciation influenced the price trends for selected services with a high share of import components in the cost structure. In particular, growth in prices for personal care, communication, and dry cleaning services decelerated. However, growth in prices for some of the other services (recreation and fast food, car maintenance etc.) accelerated, spurred by consumer demand and production costs. The overall pace of growth in the core service prices was virtually unchanged at 14.9% yoy compared to the previous month. Price growth for other non-food goods also accelerated on higher consumer demand (to 5.2% yoy).

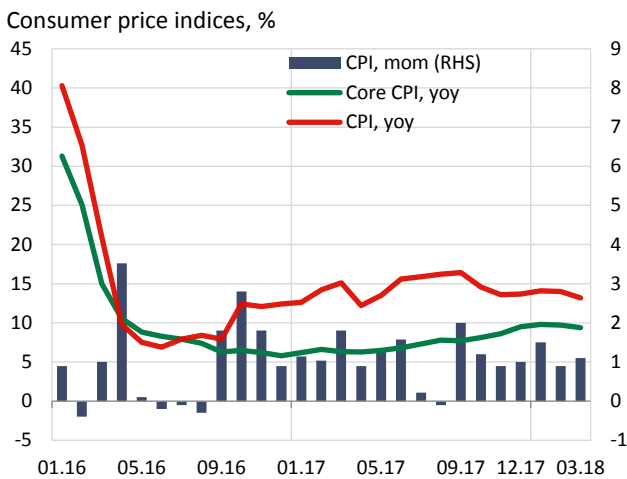
Prices for raw foods continued to rise at a fast pace (23.3% yoy) in March, above the NBU's January forecast. Supply factors (particularly a further decline in animal breeding and robust exports) remained the main contributor to the rise in prices. Consumer demand was an important factor as well.

Consequently, prices for meat and milk continued to rise rapidly (22.3% yoy and 17.7% yoy respectively), while price growth for eggs, borshch vegetables, and apples accelerated (up to 61.7% yoy, 42.3% yoy and 60.7% yoy respectively).

Meanwhile, global price trends and increasing imported supplies somewhat curbed growth in food prices. For example, growth in prices for greenhouse vegetables and tropical fruit continued to slow down in March.

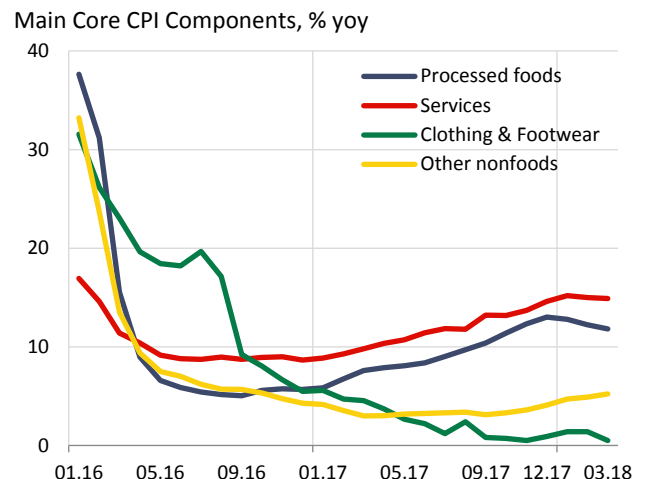
Administered prices grew slower (13.6% yoy), in particular due to the comparison base effect as electricity prices and excise taxes for most alcoholic drinks were raised in March 2017. At the same time, prices for bread and tobacco products grew at a fast pace despite a slight deceleration (17.7% yoy and 33.7% yoy respectively). Prices for water supply and sewage collection also continued to rise.

In March 2018, headline and core inflation decelerated



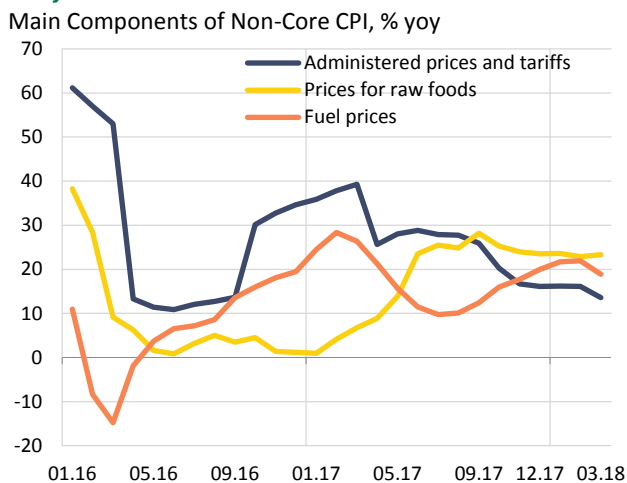
Source: SSSU

Slower imported inflation helped containing prices for goods and services included in the core CPI



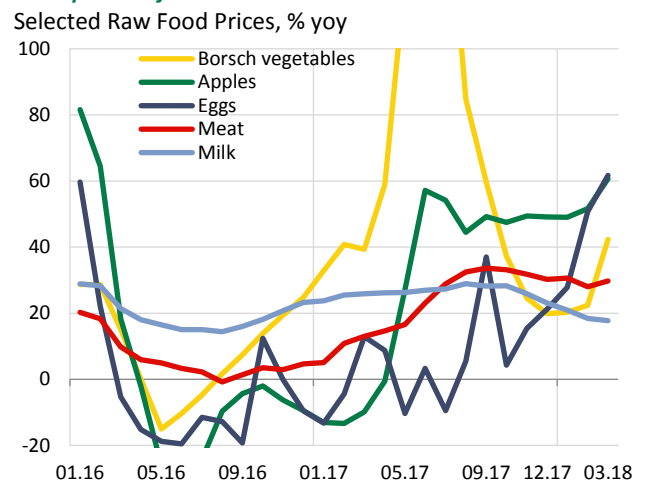
Source: SSSU; NBU staff estimates

A slowdown in headline inflation was mainly driven by moderating administered and fuel prices. However, prices for raw foods continued to accelerate ...



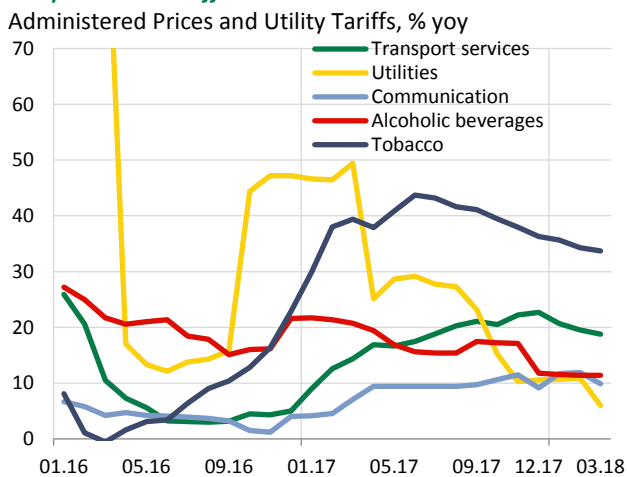
Source: SSSU; NBU staff estimates

... amid narrowing supply (particularly due to a further decline in animal breeding and robust exports). Consumer demand was an important factor as well



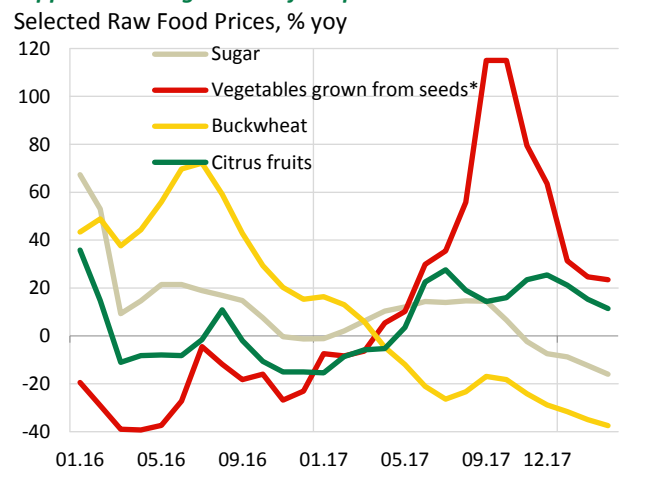
Source: SSSU

Administered prices grew slower, primarily due to the comparison base effect



Source: SSSU

Easing pressure from global prices and increasing imported supplies curbed growth in food prices



*Includes tomatoes, cucumbers, peppers, eggplants, and zucchini
Source: SSSU; NBU staff estimates

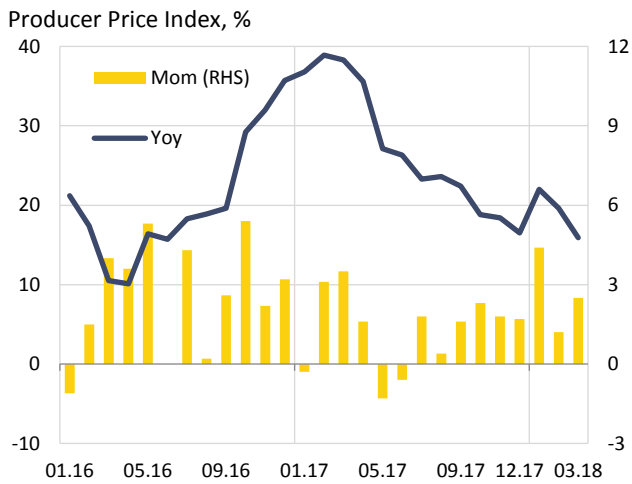
In 2018, the PPI growth slowed to 15.9% yoy, from 19.6% yoy in February. Month on month, producer prices rose 0.3%. Most mining and manufacturing industries saw the price slowdown, driven by downward price trends in world markets.

In particular, the declining world iron ore prices caused prices for metal ore mining to fall (by 0.7% yoy), resulting in the slowdown in metallurgy prices (to 19.7% yoy). The correction in global oil prices in early 2018 continued to be reflected in the slowdown in prices for coke and refined petroleum products (to 17.1% yoy). In addition, prices in the chemical industry grew less rapidly (to 9.6% yoy) due to lower global prices for fertilizers than last year, and other factors.

Price growth in the supply of electric power, natural gas, steam, and conditioned air slightly slowed (to 22.4% yoy), primarily due to lower electricity prices produced by TPPs as prices for imported coal were lower than last year.

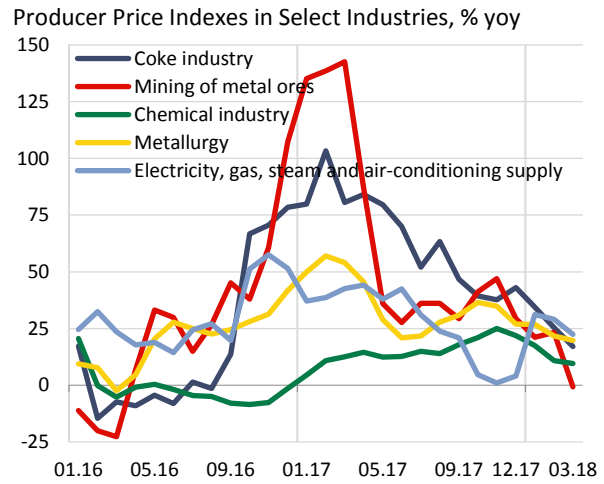
Price growth for food, beverages and tobacco products decelerated as well (to 10.3% yoy). In particular, the decline in prices in sugar production deepened (to 20.1% yoy) amid lower global demand, given a sufficiently high sugar beet crop in Ukraine. In addition, price growth in production of dairy products and bakery and farinaceous products continued to slow (to 12.7% yoy and 13.2% yoy respectively). In contrast, prices in production of meat products rose at a slightly faster pace (23.9% yoy) due to the unfavorable situation in animal breeding, as well as in manufacture of beverages (to 17% yoy), inter alia reflecting the removal of preferential prices for alcohol for selected alcoholic beverage producers.

In March 2018, the producer price index continued to decelerate ...



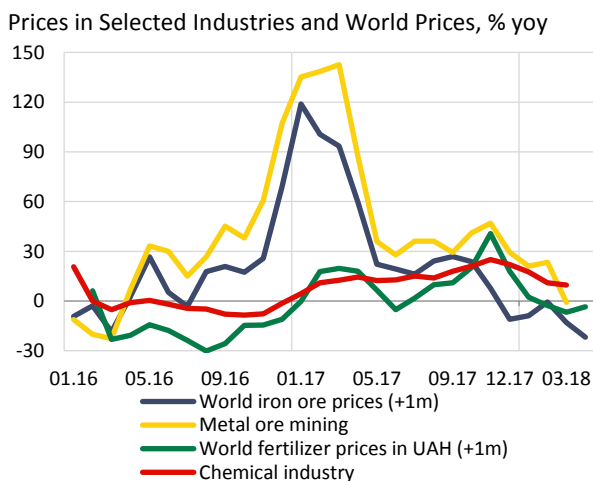
Source: SSSU

... primarily due to the price slowdown in mining and manufacturing ...



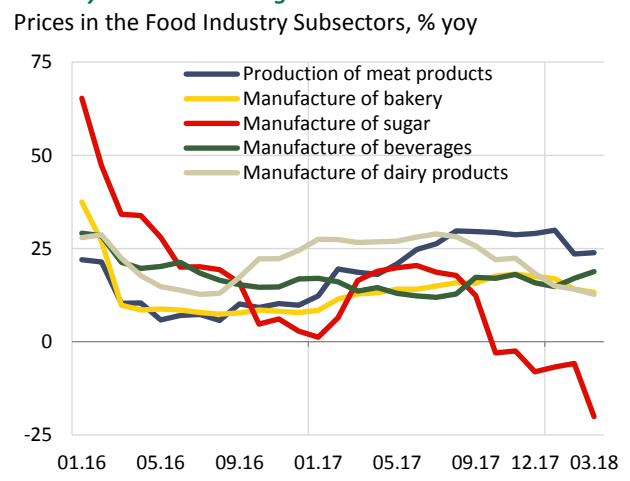
Source: SSSU

... driven by downward price trends in world markets



Source: SSSU, WB.

Growth in food prices slowed as well, but trends in the food industry subsectors diverged



Source: SSSU

CPI and PPI growth by components in 2016 - 2018							
CPI (NBU classification)							
	Share in CPI for 2018, %	yoy, %					March, mom %
		2016	2017	2018			
				January	February	March	
Consumer Price Index	100.0	12.4	13.7	14.1	14.0	13.2	1.1
Core inflation	58.9	5.8	9.5	9.8	9.7	9.4	1.4
Non-core inflation *	41.1	17.5	19.4	19.8	19.4	17.9	0.8
Raw foods	18.6	1.2	23.5	23.6	22.9	23.3	1.3
Administered prices and tariffs	18.5	34.6	16.1	16.2	16.1	13.6	1.0
Fuels	4.0	19.5	20.0	21.8	21.9	18.9	-2.5
CPI (State Statistics Service of Ukraine classification)							
Food and non-alcohol	42.6	3.3	17.7	17.9	17.3	17.3	1.1
Alcohol, tobacco	8.3	22.5	20.7	20.6	20.2	20.2	1.3
Clothing and footwear	5.6	5.5	0.9	1.4	1.4	0.5	9.6
Housing, water, electricity, gas and other fuels incl.:	6.1	47.2	10.6	10.7	10.9	6.0	0.3
Imputed rentals for housing	0.3	11.5	47.5	52.7	52.1	48.1	1.6
Water supply	0.2	42.1	20.2	20.6	22.8	23.4	0.7
Hot water	0.2	82.9	0.9	0.9	0.9	0.9	0.0
Natural gas	1.7	42.0	1.2	1.2	1.2	1.2	0.0
Central heating	1.1	89.3	3.8	3.7	3.7	3.7	0.0
Electricity	1.0	60.0	28.1	28.1	28.1	0.0	0.0
Transport	11.8	11.4	16.7	17.1	16.5	14.9	-0.7
Communication	3.1	4.0	9.1	11.7	11.9	9.9	0.6
Education	1.5	13.7	14.9	15.3	15.3	15.3	0.2
PPI							
	Share in PPI for 2018, %**	yoy, %					March, mom %
		2016	2017	2018			
				January	February	March	
Producer Price Index	100.0	35.7	16.5	22.0	19.6	15.9	0.3
Mining and quarrying	14.7	85.1	30.4	23.1	23.5	12.7	-4.8
Manufacturing of coal	2.5	40.4	47.8	37.1	39.1	39.1	0.0
Extraction of crude petroleum and natural gas	5.1	76.5	16.1	11.1	8.2	8.9	-1.1
Mining of metal ores	6.0	107.2	29.3	21.1	23.3	-0.7	-10.7
Manufacturing	65.7	22.6	18.5	18.0	15.2	13.7	0.2
Manufacture of food products, beverages and tobacco products	21.2	16.2	12.5	11.9	10.9	10.3	0.5
Manufacture of coke, and refined petroleum products	3.9	61.7	43.0	34.4	25.4	17.1	-3.7
Manufacture of chemicals and chemical products	2.8	-1.4	21.9	17.5	10.9	9.6	0.7
Manufacture of basic pharmaceutical products and pharmaceutical preparations	1.4	8.5	11.0	11.9	10.2	11.5	1.5
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.1	9.5	12.5	13.8	11.7	11.8	1.8
Manufacture of basic metals and fabricated metal products, except machinery and equipment	18.4	41.8	26.9	26.8	21.7	19.7	0.2
Manufacture of transport equipment	2.8	11.4	17.9	22.1	16.7	18.7	1.6
Electricity, gas, steam and air-conditioning supply	19.6	51.5	4.0	31.1	29.0	22.4	3.1

* 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 2017.

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.

Terms and abbreviations:

CPI – Consumer Price Index

PPI – Producer Price Index

TPP – Thermal power plant

yoy – in annual terms; year-on-year change

NBU – National Bank of Ukraine

SSSU – State Statistics Service of Ukraine

WB – The World Bank