



# NATIONAL BANK OF UKRAINE

## April 2016 Inflation Review

As expected, annual headline inflation slowed to single-digits, reaching 9.8% in April 2016, down from 20.9% in March. In monthly terms, inflation stood at 3.5%.

Actual inflation hit higher than the projected by the NBU level, however, the end-year headline inflation target of 12% +/-3 p.p. for 2016 is still within reach. That being said, given the elimination of preferential natural gas tariffs for households in April and the upward adjustment of tariffs for heating and hot water recently announced by the government, administered prices are expected to contribute more to CPI. However, their impact can be largely offset by a longer-lasting effect of supply-side factors exerting downside pressure on prices for raw foods than was reflected in the NBU's current forecast.

The elimination of preferential natural gas tariffs for households, effective through 31 March 2016, was the major contributor to monthly inflation. As a result, the increase in natural gas prices amounted to 48.4% m-o-m. In addition, the level of inflation in April was influenced by a rise in prices for alcoholic beverages (by 1.8% m-o-m) and tobacco products (by 3.5% m-o-m), which was largely consistent with the NBU's expectations. **In general, in April, administered prices and tariffs increased by 12.2% m-o-m.**

As expected, in April, fuel prices went up by 5.4% m-o-m in light of the rise in world oil prices during previous periods.

Inflation was restrained by the expected decline in raw food prices (by 0.3% m-o-m). Further decline in prices for these commodities was attributed to the supply of greenhouse products of this year's harvest on the domestic market, as well as lower prices for imported fruits and vegetables amid the appreciation of the hryvnia. Furthermore, Ukraine saw no seasonal pick up in prices for eggs ahead of the Easter holidays. In April, egg prices declined by 15.2% m-o-m due to an increased supply of eggs in the previous months.

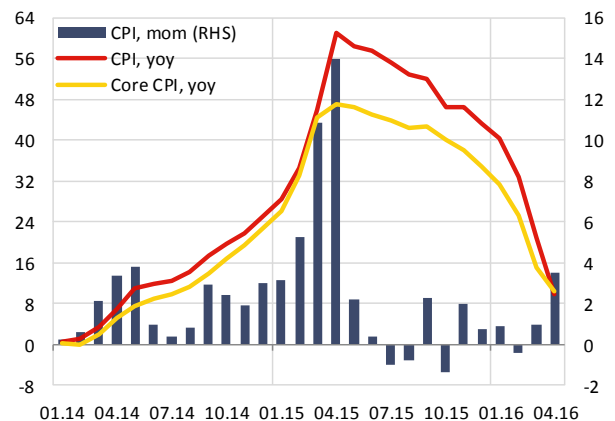
To sum up, non-core CPI rise amounted to 5.8% m-o-m in April.

Core inflation in April slowed to 0.6% m-o-m (to 10.6% y-o-y), which was consistent with the NBU's projections. Modest core inflation reflected mainly the strengthening of the hryvnia and weak consumer demand. In particular, the prices of imported goods that are included in the core CPI, such as household appliances, pharmaceuticals, audio equipment, photographic equipment, and data processing equipment, increased at a slower pace. As expected, prices for clothing and footwear lost ground, increasing at a slower pace of 1.7% m-o-m.

In April, industrial inflation remained high - 3.6% m-o-m (and slowed to 10.1% y-o-y) for the second consecutive month. This was due to a sharp price increase for steel and metal ores production (by 7.6% m-o-m and 27.4% m-o-m, respectively) against the rise in prices of steel and iron ore in foreign markets. In addition, though prices increase for the supply of electricity, gas, steam, and conditioned air slowed compared to March, it was still significant (2.9% m-o-m).

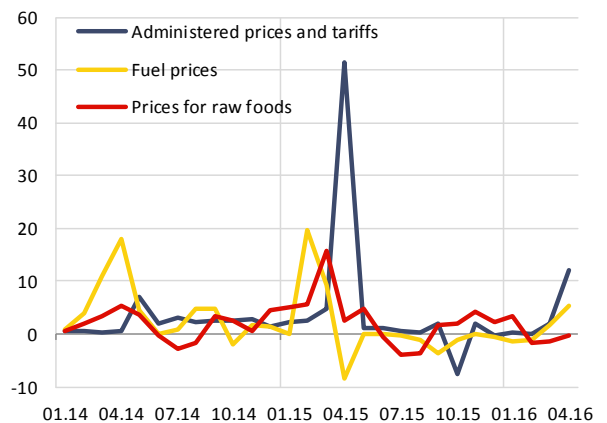
However, in April, prices fell in some sectors of the food industry (production of milk and sugar), the chemical industry, and for the production of coke and refined oil products. Falling prices for the latter, as well as for crude oil and natural gas production, took place against the strengthening of the hryvnia and a temporary downward correction in oil prices on international markets observed in late March and early April.

Inflation Indicators, %



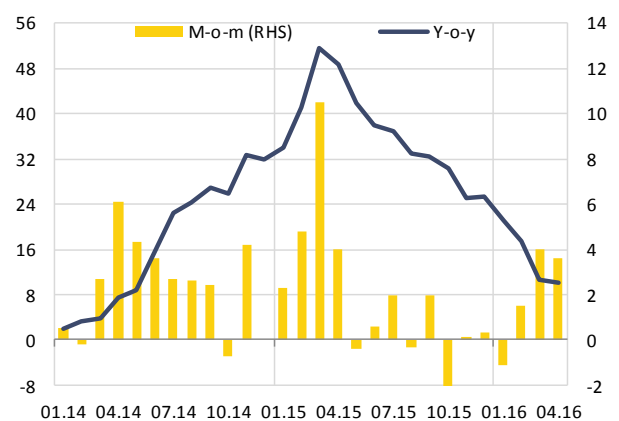
Source: State Statistics Service of Ukraine

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

CPI and PPI growth by components in 2015-16																			
CPI (NBU classification)																			
	Share in CPI, %	m-o-m, %																April, y-o-y %	
		2015												2016					
		January	February	March	April	May	June	July	August	September	October	November	December	January	February	March	April		
<b>Consumer Price Index</b>	<b>100.0</b>	<b>3.1</b>	<b>5.3</b>	<b>10.8</b>	<b>14.0</b>	<b>2.2</b>	<b>0.4</b>	<b>-1.0</b>	<b>-0.8</b>	<b>2.3</b>	<b>-1.3</b>	<b>2.0</b>	<b>0.7</b>	<b>0.9</b>	<b>-0.4</b>	<b>1.0</b>	<b>3.5</b>	<b>9.8</b>	
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	0.6	10.6	
Non-core inflation*	53.2	3.6	5.1	10.9	21.1	2.9	0.3	-1.6	-1.6	1.6	-3.0	2.9	1.0	1.7	-1.0	0.3	5.8	9.4	
Raw foods	28.3	5.2	5.8	15.8	2.5	4.8	-0.5	-4.0	-3.7	1.7	1.9	4.2	2.4	3.3	-1.8	-1.5	-0.3	3.8	
Administered prices and tariffs	22.5	2.2	2.6	4.8	51.4	1.2	1.2	0.5	0.4	1.9	-7.7	1.9	-0.3	0.2	-0.1	2.1	12.2	13.3	
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	5.4	-1.9	
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	0.1	6.9	
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	2.8	8.8	
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	1.7	19.6	
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	20.1	17.0	
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	2.0	6.6	
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	0.4	37.2	
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	0.0	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	48.4	0.0	
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	0.0	77.8	
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	2.4	2.5	
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	0.5	4.7	
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	0.3	17.5	
PPI																			
	Share in PPI, %**	m-o-m, %																April, y-o-y %	
		2015												2016					
		January	February	March	April	May	June	July	August	September	October	November	December	January	February	March	April		
<b>Producer Price Index</b>	<b>100.0</b>	<b>2.3</b>	<b>4.8</b>	<b>10.5</b>	<b>4.0</b>	<b>-0.4</b>	<b>0.6</b>	<b>2.0</b>	<b>-0.3</b>	<b>2.0</b>	<b>-2.4</b>	<b>0.1</b>	<b>0.3</b>	<b>-1.1</b>	<b>1.5</b>	<b>4.0</b>	<b>3.6</b>	<b>10.1</b>	
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	13.1	10.3	
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	0.2	21.2	
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	-3.3	-11.5	
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	27.4	6.9	
<b>Manufacturing</b>	<b>68.2</b>	<b>2.2</b>	<b>8.4</b>	<b>9.5</b>	<b>1.3</b>	<b>-0.4</b>	<b>0.6</b>	<b>0.2</b>	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.4</b>	<b>-0.2</b>	<b>0.2</b>	<b>1.1</b>	<b>2.7</b>	<b>2.3</b>	<b>7.2</b>	
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	0.3	11.3	
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	-3.5	-13.4	
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	-0.2	-0.9	
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	1.9	7.7	
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	7.6	4.6	
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	1.7	13.3	
<b>Electricity, gas, steam and air-conditioning supply</b>	<b>18.8</b>	<b>3.4</b>	<b>-5.5</b>	<b>13.4</b>	<b>7.9</b>	<b>1.5</b>	<b>0.8</b>	<b>7.0</b>	<b>-0.1</b>	<b>7.5</b>	<b>-8.7</b>	<b>0.3</b>	<b>3.3</b>	<b>-3.4</b>	<b>0.6</b>	<b>5.7</b>	<b>2.9</b>	<b>17.8</b>	
* Corrected NBU staff 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.																			