



# NATIONAL BANK OF UKRAINE

## April 2017 Inflation Review

In April 2017, headline inflation slowed to 12.2% yoy, down from 15.1% yoy in March. In monthly terms, the CPI increased by 0.9%.

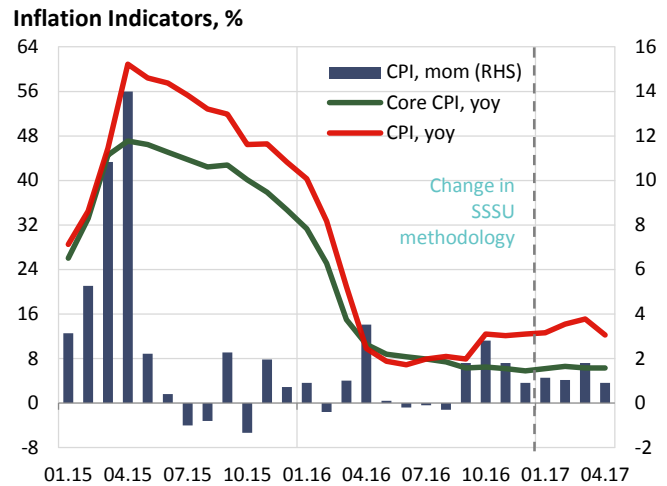
The rapid slowdown in annual inflation in April was expected, reflecting the waning effect of a number of administered factors. In particular, natural gas tariffs surged in April 2016, which affected this year's comparison base.

Actual inflation was slightly below the projected path of annual headline inflation published by the National Bank of Ukraine in the Inflation Report (April 2017), envisaging a slowdown in the annual CPI to 9.1% by the end of 2017. The shortfall can be attributed to weaker-than-expected underlying inflation pressures.

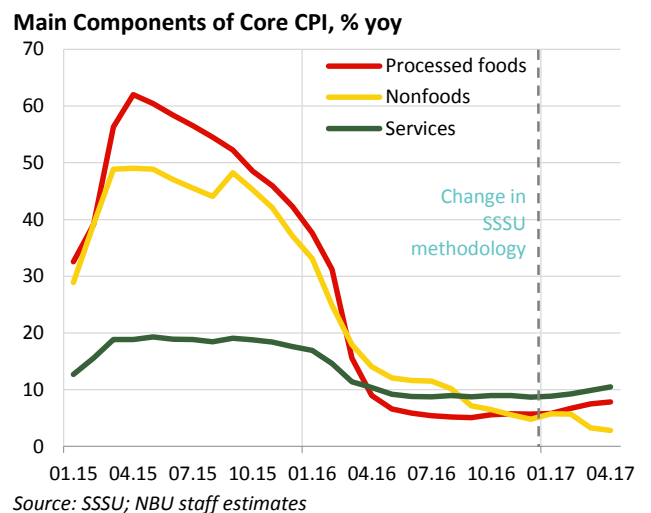
Core inflation remained flat at 6.3% yoy (stood at 0.6% mom), while a slight acceleration was expected. As anticipated, prices for processed foods and the majority of services included in the core CPI accelerated (up by 7.9% yoy and 10.5% yoy, respectively) driven by increased production costs, including higher labor costs, as well as due to secondary effects from rising raw food prices, in particular, meat prices. However, their effect was offset by other factors. Thus, a further strengthening of the hryvnia and improved inflation expectations contributed to a slower than expected pace of increase in prices for clothing and footwear in April (3.7% yoy). In addition, prices for textiles, household appliances, and pharmaceutical products continued to decelerate, while prices for some goods (audiovisual equipment, laptops, and mobile telephones) remained lower than last year.

Raw food prices accelerated to 10.0% yoy in April (up by 2.0% mom). This acceleration was anticipated and can be attributed, in particular, to a low base effect. In particular, prices for raw foods in Ukraine decelerated sharply in April last year due to trade and transit restrictions imposed by Russia on Ukrainian as well as Turkish goods. A smaller supply of fruit and vegetables compared to the last year, particularly due to a pick-up in exports and lower imports, contributed to a deceleration in the annual growth of prices for vegetables (to 11.4% yoy) and a recovery in fruit prices (by 2.5% yoy). In addition, prices for meat and raw milk accelerated (to 13.5% yoy and 26.1% yoy, respectively), reflecting increased production costs and robust exports. Meanwhile, in April, prices for eggs continued to decline in monthly terms (by 18.3%), while the pace of annual price growth decelerated (to 8.8% yoy) as partial export restrictions on poultry-related products were maintained.

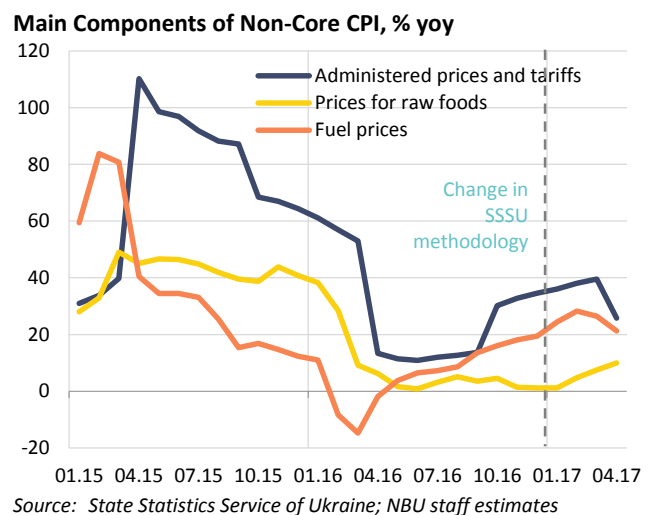
The growth of administered prices and tariffs decelerated to 25.7% yoy (stood at 1.2% mom). This deceleration was primarily due to the dissipating base effect linked to a surge in natural gas tariffs in April 2016. In addition, despite further increases in excise taxes on alcoholic beverages from 1 April 2017, prices of these products slowed down slightly (to 19.4% yoy). Prices for tobacco products also decelerated slightly (to 37.9% yoy) as a favorable base effect faded away. Meanwhile,



Source: SSSU



Source: SSSU; NBU staff estimates



Source: State Statistics Service of Ukraine; NBU staff estimates

prices for postal services accelerated in April (to 66.8% yoy) due to the reflection of higher tariffs charged by "Ukrposhta" JSC for its services as well as increased prices for postal services rendered by private postal service providers. 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.

**Fuel prices decelerated to 21.3% yoy (up by 1.2% mom)** across all fuel types, except for prices for liquefied gas which accelerated due to supply disruptions from the Russian Federation.

**In April 2017, the producer price index growth decelerated to 35.6% yoy (from 38.3% yoy in March). Producer prices grew by 3.5% mom.** As in previous months, the PPI movement was mainly driven by global commodity price developments.

The price growth in the mining industry decelerated to 75.7% yoy. This was primarily due to the steep price deceleration in domestic iron ore production (to 87.0% yoy) amid the corresponding decline in world prices. However, despite a slight decrease in world oil prices, prices in the extraction of crude oil and natural gas accelerated (to 94.1% yoy) due to the low comparison base last year (although were down in monthly terms). Meanwhile, prices in the coal mining also accelerated (to 35.4% yoy) due to the coal shortages.

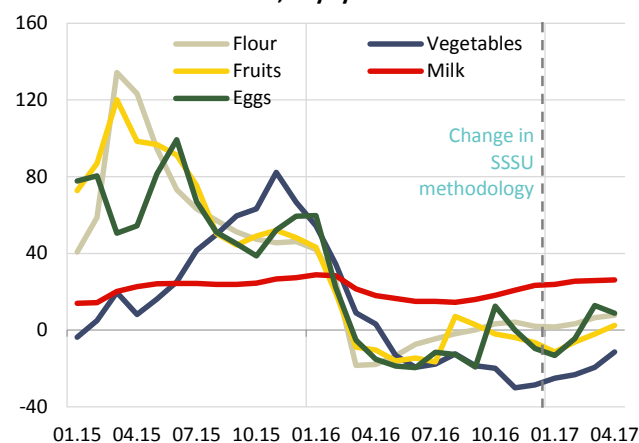
Diverse trends in the mining industry affected prices in the next stages of production. In particular, price increases in metallurgy continued to slow down (to 45.5% yoy) and in the production of coke and refined products, by contrast, accelerated (to 84.1% yoy).

Producer prices in food processing industry remained almost unchanged for the last five months (16.3% yoy in April 2017), although moved in opposite directions across selected industries. Thus, prices in the production of meat and meat products decelerated amid moderate improvement in animal production. However, prices in the production of bakery and farinaceous products accelerated noticeably due to increased production costs, as well as prices in the production of sugar and dairy products, due to the considerable volumes of their exports.

Prices in the chemical industry continued to accelerate (up by 14.5% yoy). This was primarily due to price increases in the production of industrial gasses amid high demand for these products from the construction industry. In addition, rising input prices for the pesticide production spurred this acceleration. Meanwhile, in the production of rubber and plastic products, other non-metallic mineral products price growth slowed down (to 11.2% yoy) amid growing supply.

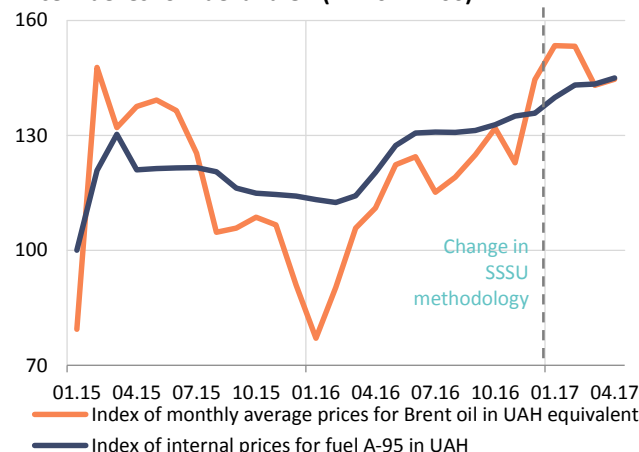
Prices in the supply of electric power, natural gas, steam, and conditioned air also accelerated to 44.2% yoy in April (from 42.6% yoy in March) due to increased production costs, particularly reflecting more expensive imported coal than domestically produced. Despite the increase in the electricity production prices in April, there was a slight drop in wholesale electricity prices charged to industrial producers, according to National Commission for State Regulation of Energy and Public

Selected Raw Food Prices, % yoy



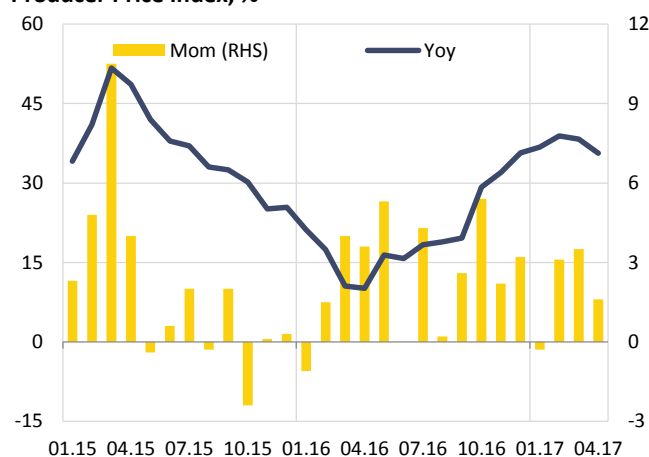
Source: State Statistics Service of Ukraine

Price Indexes for Fuel and Oil (12.2014=100)



Source: State Statistics Service of Ukraine; Thomson Reuters Datastream

Producer Price Index, %

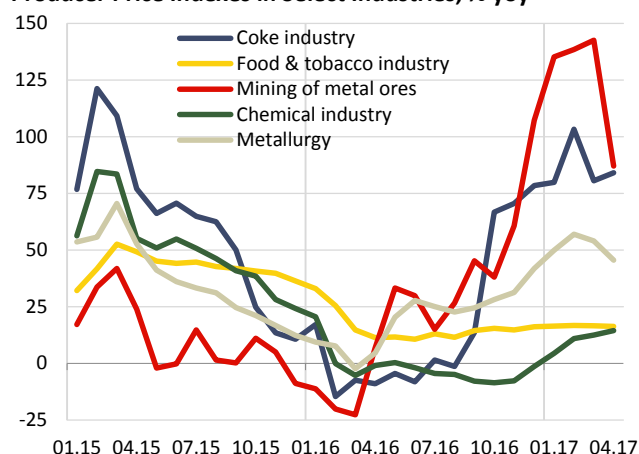


Source: State Statistics Service of Ukraine

Utilities. This reduction is attributed to a gradual elimination of cross-subsidization in electricity tariffs for households by other consumers. Raising tariffs for households in March led to another drop in the share of cross-subsidies in retail tariffs for industrial consumers.

*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 for 2017, %	yoy, %						April, mom %
		2015	2016	2017**				
				January	February	March	April	
<b>Consumer Price Index</b>	<b>100.0</b>	<b>43.3</b>	<b>12.4</b>	<b>12.6</b>	<b>14.2</b>	<b>15.1</b>	<b>12.2</b>	<b>0.9</b>
Core inflation	57.4	34.7	5.8	6.2	6.6	6.3	6.3	0.6
Non-core inflation*	42.6	49.7	17.5	18.0	21.3	23.2	18.2	1.5
Raw foods	19.0	40.7	1.2	1.2	4.7	7.5	10.0	2.0
Administered prices and tariffs	18.6	64.4	34.6	35.9	38.1	39.5	25.7	1.2
Fuels	5.0	12.5	19.5	24.5	28.4	26.3	21.3	1.2
CPI (State Statistics Service of Ukraine classification)								
Food and non-alcohol	41.8	41.5	3.3	3.0	5.3	7.2	8.3	1.2
Alcohol, tobacco	7.9	22.7	22.5	26.3	30.2	30.2	28.3	1.3
Clothing and footwear	5.4	35.0	5.5	5.6	4.7	4.5	3.7	0.9
Housing, water, electricity, gas and other fuels incl.:	7.5	103.0	47.2	46.6	46.5	49.5	25.1	0.5
Imputed rentals for housing	0.5	5.4	11.5	14.1	16.8	21.7	25.3	5.0
Water supply	0.3	23.0	42.1	26.7	24.7	24.1	27.3	3.0
Hot water	0.2	55.8	82.9	82.9	83.2	83.3	83.3	0.0
Natural gas	2.1	273.0	42.0	42.0	42.0	42.0	-4.3	0.0
Central heating	1.2	78.7	89.3	89.7	90.1	90.2	90.2	0.0
Electricity	1.0	66.9	60.0	60.0	60.0	63.7	63.7	0.0
Transport	12.1	20.4	11.4	14.9	17.2	16.8	15.7	0.7
Communication	3.2	7.0	4.0	4.1	4.6	7.1	9.4	2.5
Education	1.6	24.2	13.7	12.1	11.5	10.7	10.3	0.2
PPI								
	Share in PPI for 2017, %***	yoy, %						April, mom %
		2015	2016	2017				
				January	February	March	April	
<b>Producer Price Index</b>	<b>100.0</b>	<b>25.4</b>	<b>35.7</b>	<b>36.8</b>	<b>38.9</b>	<b>38.3</b>	<b>35.6</b>	<b>1.6</b>
<b>Mining and quarrying</b>	<b>13.2</b>	<b>17.6</b>	<b>85.1</b>	<b>109.1</b>	<b>101.0</b>	<b>94.7</b>	<b>75.7</b>	<b>2.1</b>
Manufacturing of coal	2.4	-0.8	40.4	43.5	21.0	20.5	35.4	12.6
Extraction of crude petroleum and natural gas	4.7	120.3	76.5	123.8	116.2	88.3	94.1	-0.3
Mining of metal ores	5.1	-8.9	107.2	135.2	138.5	142.6	87.0	-1.8
<b>Manufacturing</b>	<b>65.1</b>	<b>23.8</b>	<b>22.6</b>	<b>25.6</b>	<b>28.9</b>	<b>27.5</b>	<b>25.4</b>	<b>0.6</b>
Manufacture of food products, beverages and tobacco products	21.8	36.4	16.2	16.4	16.7	16.6	16.3	0.0
Manufacture of coke, and refined petroleum products	3.4	4.7	61.7	79.9	103.3	80.6	84.1	-1.7
Manufacture of chemicals and chemical products	3.2	24.2	-1.4	4.5	10.9	12.5	14.5	1.6
Manufacture of basic pharmaceutical products and pharmaceutical preparations	1.4	31.5	8.5	8.3	9.2	9.0	9.0	0.6
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.2	29.6	9.5	10.6	11.7	12.2	11.2	1.0
Manufacture of basic metals and fabricated metal products, except machinery and equipment	17.3	12.4	41.8	49.9	57.0	54.0	45.5	1.6
Manufacture of transport equipment	2.2	15.5	11.4	9.1	15.4	14.5	16.1	3.1
<b>Electricity, gas, steam and air-conditioning supply</b>	<b>21.8</b>	<b>33.2</b>	<b>51.5</b>	<b>37.1</b>	<b>38.7</b>	<b>42.6</b>	<b>44.2</b>	<b>4.0</b>

\* 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.