



# NATIONAL BANK OF UKRAINE

## May 2017 Inflation Review

In May 2017, headline inflation expectedly accelerated to 13.5% yoy, up from 12.2% yoy in April. In monthly terms, the CPI increased by 1.3%.

Actual inflation came in above the NBU's projections in both annual and monthly terms, primarily reflecting a faster growth in raw food prices and a stronger impact of administered factors. Meanwhile, underlying inflation pressures were weaker than expected.

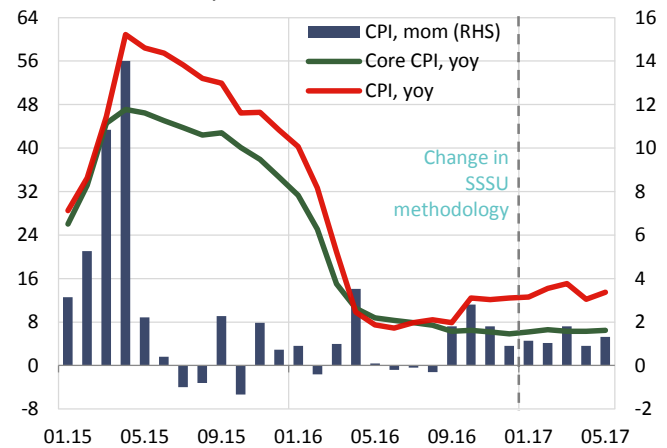
Core inflation expectedly picked up in May (to 6.5% yoy, stood at 0.3% mom), but fell short of the NBU's projection owing to the improvement in inflation expectations amid a further strengthening of the hryvnia against the US dollar. Thus, prices for clothes and footwear, textiles, and household appliances continued to decelerate, while prices for some goods (laptops, mobile telephones, and personal care products) remained lower than last year. In turn, the acceleration of core inflation was due to secondary effects from rising raw food prices and a continuing pass-through from increased production costs, including labor costs. Correspondingly, this pushed up prices for processed foods (to 8.1% yoy) and selected services included in the core CPI (to 10.7%). In particular, prices for meat products, cheese, recreational and cultural services, as well as prices for restaurants and hotels picked up in May.

Raw food prices accelerated further to 13.8% yoy (were up by 4.7% mom). Overall, the rise in prices for these goods was expected; however, the pace of increase outperformed the NBU's projections. In particular, prices for meat and raw milk continued to accelerate in annual terms, driven by higher global prices and robust exports. In addition, raw food prices were adversely affected by expectations about partial crop losses due to unfavorable weather conditions. A reduction in the supply of domestically produced fruit and vegetables (due to late frosts in April-May) and higher supply of more expensive imported products contributed to a recovery in vegetable prices (were up by 9.8% yoy) and pushed fruit prices higher (to 12.7% yoy). In May, prices for eggs declined in annual terms (by 10.4%) as partial export restrictions on poultry-related products were maintained.

Growth of administered prices and tariffs accelerated to 28.1% yoy (stood at 1.4% mom), primarily reflecting higher tariffs for cold water and sewerage effective from 12 May 2017. In addition, prices for tobacco products accelerated significantly (to 40.8% yoy) due to distribution difficulties. Furthermore, suburban transport fares accelerated due to rising costs. At the same time, the growth of charges for air transportation and fees charged for pre-primary education slowed down, as well as prices for alcoholic beverages.

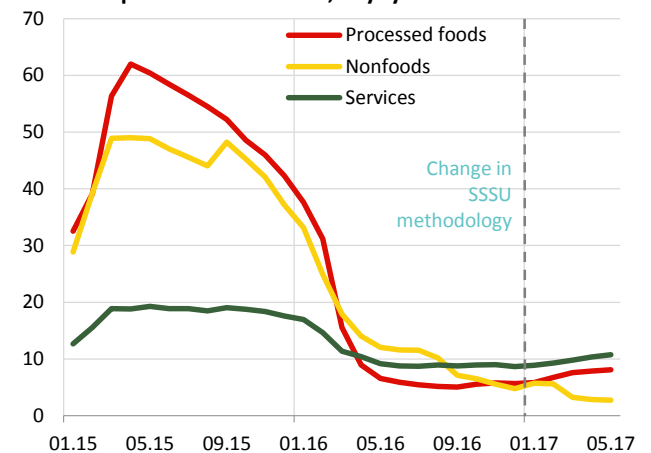
Fuel prices decelerated to 15.7% yoy (were up by 0.9% mom). The slowdown reflected changes in gasoline prices against a higher comparison base (global oil prices rose sharply last year, whereas since the beginning of 2017 they fluctuated within a rather narrow range with a slight downward trend). Instead,

Inflation Indicators, %



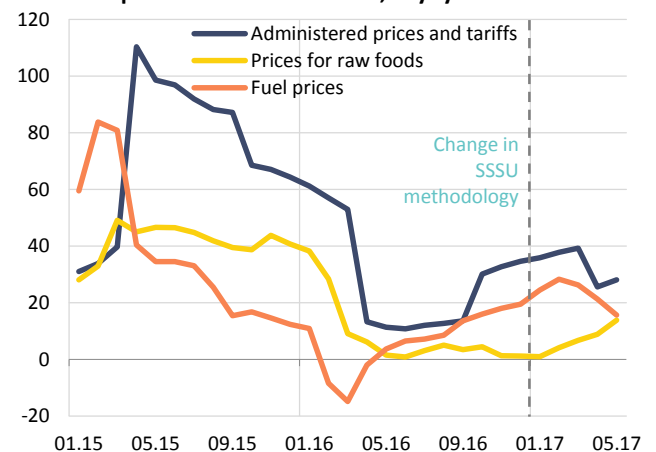
Source: SSSU

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

prices for liquefied gas lacked the favorable base effect, which, along with supply disruptions from the Russian Federation in early May, led to an acceleration of prices for this fuel type.

**In May 2017, the producer price index decelerated to 27.1% yoy (from 35.6% yoy in April). Producer prices fell by 1.3% mom.** As in previous months, the PPI movements were mainly driven by global commodity price developments. In particular, a decrease in global iron ore prices led to a significant deceleration in prices for domestic iron ore production (to 35.9% yoy), while a slight decrease of world oil prices contributed to a steep slowdown in prices in the extraction of crude oil and natural gas (to 12.0% yoy). As a result, the price growth in the mining industry decelerated to 32.4% yoy (from 75.7% yoy in April).

These developments spilled over into the prices in the next stages of production, particularly in metallurgy (decelerated to 28.9% yoy from 45.5% yoy in April), production of coke and refined products (price growth slowed to 79.5% yoy from 84.1% yoy in April).

Prices in the chemical industry decelerated to 12.4% yoy amid declining global prices for fertilizers and energy resources.

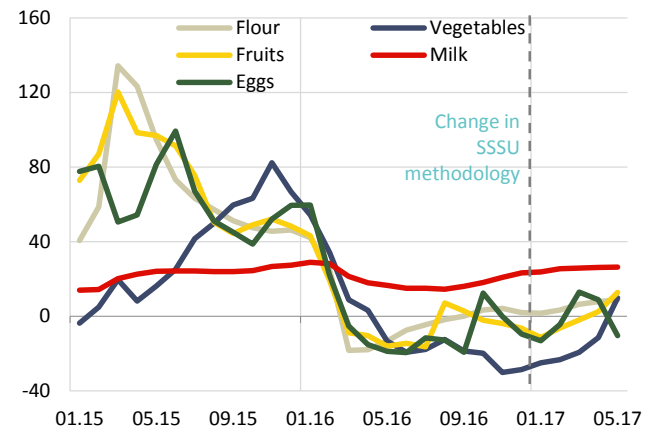
However, producer prices accelerated slightly in the food processing industry (to 16.9% yoy). Thus, higher prices for meat and meat products (up to 20.9% yoy) on the back of robust exports and rising global prices was one of the most important factors behind such an acceleration. In addition, prices in the production of bakery and farinaceous products accelerated due to increased production costs.

Prices in the manufacture of wood products and paper production, as well as in the production of rubber and plastic products, and other non-metallic products accelerated amid reduced production and increased production costs. In particular, wages of employees in these activities grew faster than the industry average.

Prices in the supply of electric power, natural gas, steam, and conditioned air decelerated to 37.9% yoy in May (from 44.2% yoy in April). This deceleration reflected the complete transition to market-based retail electricity pricing for industrial consumers from May 1, 2017,<sup>1</sup> amid a gradual elimination of cross-subsidization in electricity tariffs for households by other consumers. An increase of nuclear power share in electricity generation was an additional factor.

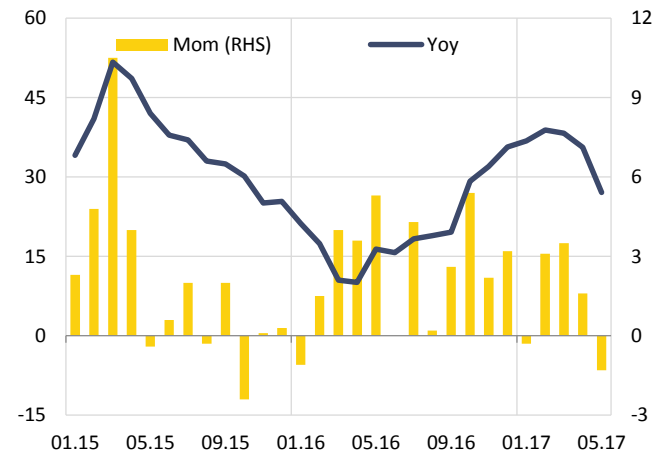
*The Review is a translation of the original text in Ukrainian. In case of any discrepancies between the original document and its English translation, readers should consider the Ukrainian version of the Review as correct.*

**Selected Raw Food Prices, % yoy**



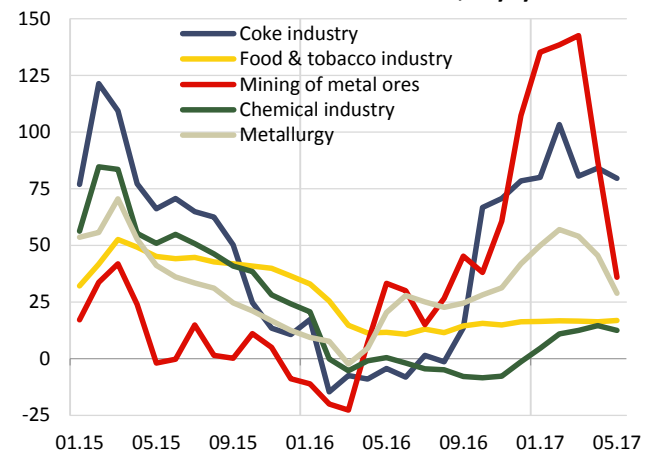
Source: State Statistics Service of Ukraine

**Producer Price Index, %**



Source: State Statistics Service of Ukraine

**Producer Price Indexes in Select Industries, % yoy**



Source: State Statistics Service of Ukraine

<sup>1</sup> For more information, see Resolution of The National Commission for State Energy and Utilities Regulation № 538 of 24 April 2017 [On Market-Based Retail Electricity Pricing for Different Types of Consumers in Ukraine, Except Households.](#)

CPI and PPI growth by components in 2015 - 2017										
CPI (NBU classification)										
	Share in CPI for 2017, %	yoy, %								May, mom %
		2015	2016	2017**						
				January	February	March	April	May		
<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>13.5</b>	<b>1.3</b>	
Core inflation	57.4	34.7	5.8	6.2	6.6	6.3	6.3	6.5	0.3	
<b>Non-core inflation *</b>	<b>42.6</b>	<b>49.7</b>	<b>17.5</b>	<b>17.9</b>	<b>20.8</b>	<b>22.8</b>	<b>17.7</b>	<b>20.7</b>	<b>2.6</b>	
Raw foods	19.0	40.7	1.2	1.0	4.1	6.7	8.9	13.8	4.7	
Administered prices and tariffs	18.6	64.4	34.6	35.9	37.8	39.3	25.6	28.1	1.4	
Fuels	5.0	12.5	19.5	24.5	28.4	26.3	21.3	15.7	0.9	
CPI (State Statistics Service of Ukraine classification)										
<b>Food and non-alcohol</b>	<b>41.8</b>	<b>41.5</b>	<b>3.3</b>	<b>3.0</b>	<b>5.3</b>	<b>7.2</b>	<b>8.3</b>	<b>10.6</b>	<b>2.3</b>	
Alcohol, tobacco	7.9	22.7	22.5	26.3	30.2	30.2	28.3	27.5	2.7	
<b>Clothing and footwear</b>	<b>5.4</b>	<b>35.0</b>	<b>5.5</b>	<b>5.6</b>	<b>4.7</b>	<b>4.5</b>	<b>3.7</b>	<b>2.7</b>	<b>-1.0</b>	
<b>Housing, water, electricity, gas and other fuels incl.:</b>	<b>7.5</b>	<b>103.0</b>	<b>47.2</b>	<b>46.6</b>	<b>46.5</b>	<b>49.5</b>	<b>25.1</b>	<b>28.6</b>	<b>0.8</b>	
Imputed rentals for housing	0.5	5.4	11.5	14.1	16.8	21.7	25.3	29.3	4.4	
Water supply	0.3	23.0	42.1	26.7	24.7	24.1	27.3	37.1	8.0	
Hot water	0.2	55.8	82.9	82.9	83.2	83.3	83.3	83.0	0.1	
Natural gas	2.1	273.0	42.0	42.0	42.0	42.0	-4.3	0.9	0.9	
Central heating	1.2	78.7	89.3	89.7	90.1	90.2	90.2	90.2	0.0	
Electricity	1.0	66.9	60.0	60.0	60.0	63.7	63.7	63.7	0.0	
<b>Transport</b>	<b>12.1</b>	<b>20.4</b>	<b>11.4</b>	<b>14.9</b>	<b>17.2</b>	<b>16.8</b>	<b>15.7</b>	<b>13.1</b>	<b>0.5</b>	
Communication	3.2	7.0	4.0	4.1	4.6	7.1	9.4	9.4	0.1	
Education	1.6	24.2	13.7	12.1	11.5	10.7	10.3	9.7	0.1	
PPI										
	Share in PPI for 2017, %***	yoy, %								May, mom %
		2015	2016	2017						
				January	February	March	April	May		
<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>27.1</b>	<b>-1.3</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>32.4</b>	<b>-9.8</b>	
Manufacturing of coal	2.4	-0.8	40.4	43.5	21.0	20.5	35.4	37.1	1.1	
Extraction of crude petroleum and natural gas	4.7	120.3	76.5	123.8	116.2	88.3	94.1	12.0	-2.6	
Mining of metal ores	5.1	-8.9	107.2	135.2	138.5	142.6	87.0	35.9	-22.0	
<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>21.1</b>	<b>0.5</b>	
Manufacture of food products, beverages and tobacco products	21.8	36.4	16.2	16.4	16.7	16.6	16.3	16.9	0.8	
Manufacture of coke, and refined petroleum products	3.4	4.7	61.7	79.9	103.3	80.6	84.1	79.5	-0.9	
Manufacture of chemicals and chemical products	3.2	24.2	-1.4	4.5	10.9	12.5	14.5	12.4	-0.2	
Manufacture of basic pharmaceutical products and pharmaceutical preparations	1.4	31.5	8.5	8.3	9.2	9.0	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	11.7	0.6	
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	28.9	0.5	
Manufacture of transport equipment	2.2	15.5	11.4	9.1	15.4	14.5	16.1	14.2	0.6	
<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>37.9</b>	<b>-2.1</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.