

June 2018 saw a marked slowdown in consumer price inflation, to 9.9% yoy (compared to 11.7% in May). In month-on-month terms, prices did not change.

A further decrease in annual inflation had been expected, and its June reading came out slightly below the NBU's projected inflation trajectory, as published in the April 2018 Inflation Report. This was mainly the result of a more ample food supply, including raw foods, on the back of more favorable weather and a rise in imports. In addition, the strengthening in the hryvnia exchange rate, driven in particular by tight monetary policy of the NBU, had a downward effect on the costs of imported goods and the prices of goods and services with a significant import content in their production costs.

Core inflation decelerated in June, to 9.0% yoy. At the same time, inflationary pressure continues to be strong, as indicated by the core inflation rate. This is mainly the result of robust consumer demand, which is fueled by rapid real wage growth.

Thus, the growth in the costs of services moderated slightly (to 14.0% yoy). The growth in the costs of some services (tourism, renovations, etc.) accelerated on the back of stronger consumer demand. Simultaneously, the growth in the dwelling maintenance continued to decelerate (to 28.7% yoy) due to a high comparison base.

In addition, the strengthening of the hryvnia against both the dollar and a basket of the currencies of Ukraine's trading partners was transmitted to the import components of the costs. As a result, the costs of personal care, healthcare, cable TV, and the prices of non-food products grew at a slower pace (4.1% yoy), as did the prices for certain food products, mainly imported ones (e.g. coffee, seafood, etc.). Moreover, this, along with lower food prices, affected the cost of catering services.

Coupled with a drop in global prices, a slowdown in the growth of raw materials prices, which was caused, among other things, by an expansion in the supply of domestic and imported raw materials, contributed to a deceleration in the growth of prices for meat (to 18.0% yoy) and dairy products (to 13.6% yoy). Butter was an exception, owing to sustained strong demand from abroad. Consequently, the growth in the prices of highly processed foods slowed moderately (to 11.2% yoy).

The growth in raw food prices decelerated sharply (to 5.2% yoy) in June. The decline in prices of vegetables and fruits (by 12.9% yoy and 0.2% yoy respectively) contributed

the most to such a slowdown. Among others, the prices of vegetables used in cooking borsch (cabbage, potatoes, and onions) and vegetables grown from seed (cucumbers and tomatoes) fell as domestic and imported supply expanded. Furthermore, favorable weather resulted in a more ample supply of berries and a respective slowdown in their price growth (to 1.4% yoy), while the sizable imports of bananas and oranges caused their prices to decrease (by 17.0% yoy and 19.4% yoy respectively). Lower global meat prices contributed to the slower growth in the prices of meat products in Ukraine (to 15.7% yoy). The growth in milk prices has also slightly slowed (to 16.4% yoy).

To the upside, egg prices increased more rapidly (53.8% yoy) than expected, primarily due to a rise in their exports in preceding months, as did prices for carrots and beetroots (61.0% and 62.0% yoy respectively) amid limited supply in the off-season and hot weather conditions.

The rate of growth in administered prices was almost unchanged at 13.2% yoy. In particular, the cost of railway transport began to accelerate (to 15.7% yoy) after passenger tariffs were raised on 30 May 2018. Prices for tobacco products continued to grow quickly, despite a deceleration (to 26.2% yoy). By contrast, the prices for alcoholic beverages, bread, and the costs of services of water and wastewater systems rose at a slower pace.

Growth in fuel prices accelerated (to 18.1% yoy) due to a higher-than-expected increase in global oil prices.

In June 2018, the PPI inflation accelerated to 18.4% yoy from 16.5% yoy in May. Month on month, the producer price index rose by 1.1%.

In June, prices in the mining industry kept growing at a faster pace (25.0% yoy). Most notably, prices in mining of metal ores (29.2% yoy) and the extraction of crude oil and natural gas (18.0% yoy) rallied on the back of accelerating global prices. Consequently, these trends affected prices in the next stages of production. Moreover, price growth in metallurgy slightly accelerated (to 18.6% yoy), while the production of coke and refined products posted solid price rises (25.0% yoy). In addition, slightly higher global prices for fertilizers translated into higher prices in the chemical production (up to 8.5% yoy).

Another rise in tariffs for supplying natural gas to industrial consumers by "Naftogaz" NJSC in June on the back of trends in global energy market led to a higher cost of electricity, gas, steam and air-conditioned air (to 28.1% yoy).

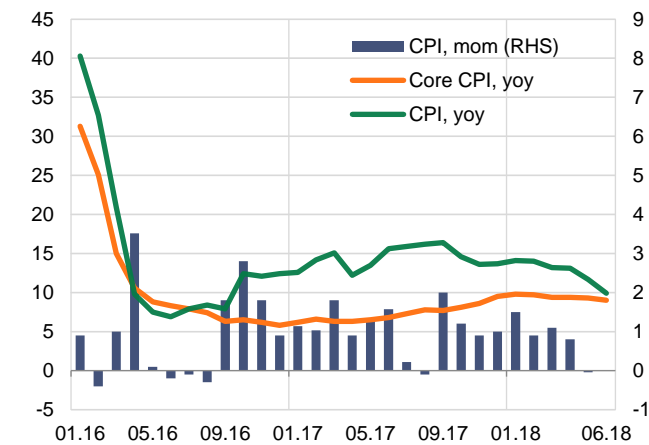
In addition, rising demand from other sectors of the economy, among other factors, caused prices in manufacture of transport equipment to accelerate to 20.8% yoy.

To the downside, price growth in manufacture of foods, beverages and tobacco products decelerated to 9.6% yoy. This was primarily due to a slowdown in prices for meat

products (to 13.6% yoy) amid ample supply of imported raw materials. In addition, prices in sugar production deepened their decline (to 21.8% yoy). At the same time, prices for dairy products (14.2% yoy) grew at a faster pace amid solid external demand, as did the prices in the beverages production (16.5% yoy).

In June 2018, headline and core inflation decelerated

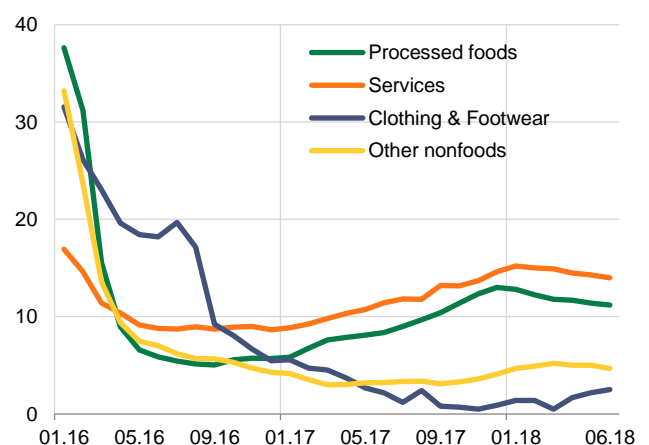
Consumer price indices, %



Source: SSSU.

Strengthening of the hryvnia NEER contributed to the deceleration of the import content in production costs and offset the impact of solid consumer demand

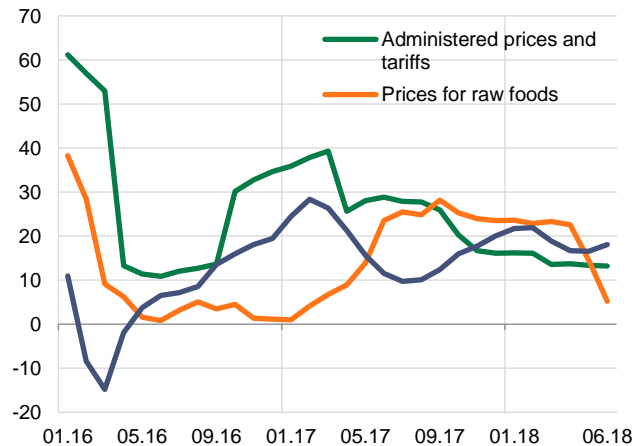
Main Core CPI Components, % yoy



Source: SSSU, NBU staff estimates.

A slowdown in non-core inflation was mainly driven by raw food prices...

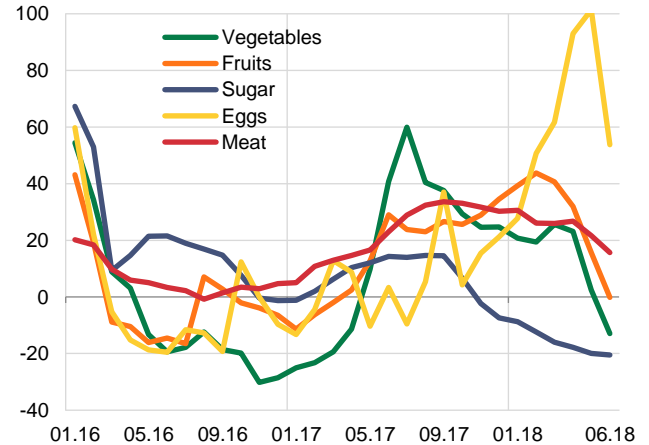
Main Components of Non-Core CPI, % yoy



Source: SSSU, NBU staff estimates.

...as a result of a more ample food supply on the back of rising imports and favorable weather

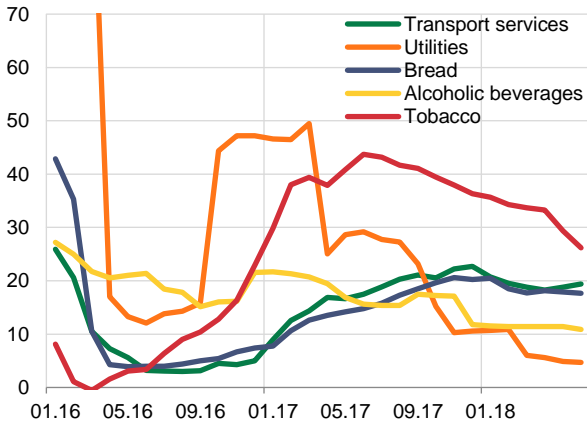
Selected Raw Food Prices, % yoy



Source: SSSU.

The acceleration of the growth in rail transportation prices held back the slowdown of administered inflation

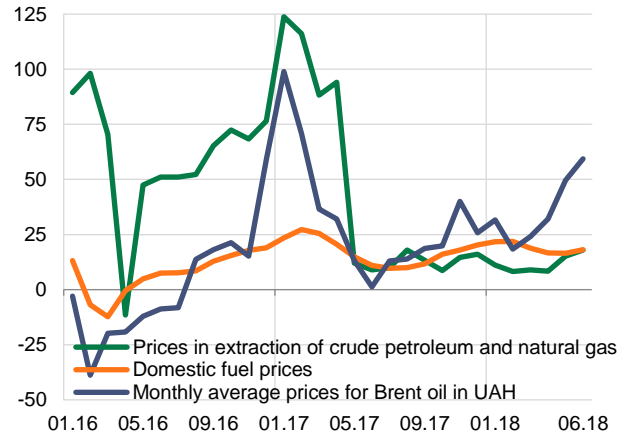
Administered Prices and Utility Tariffs, % yoy



Source: SSSU.

Fuel prices accelerated amid rising global oil prices

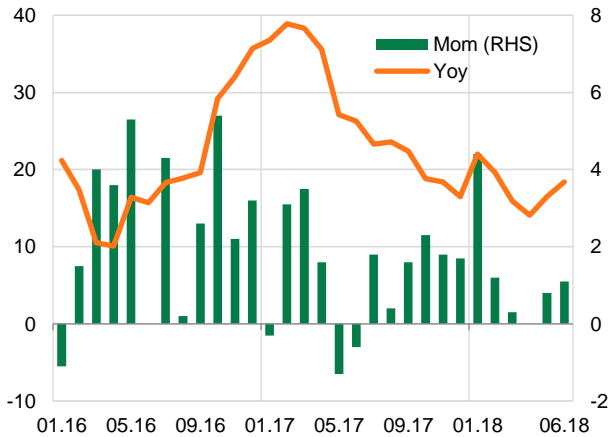
Consumer Fuel Prices, Prices in Extraction of Crude Oil and Natural Gas and Global Oil Prices, % yoy



Source: SSSU, Thomson Reuters Datastream.

In June 2018, the producer price index accelerated...

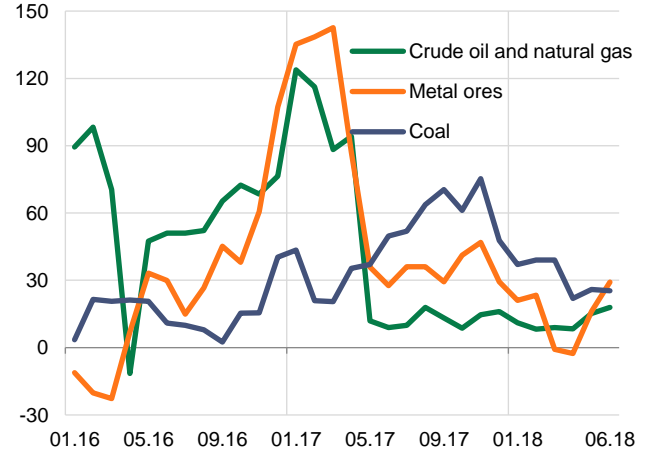
Producer Price Index, %



Source: SSSU.

... mainly due to surging prices in mining industry, ...

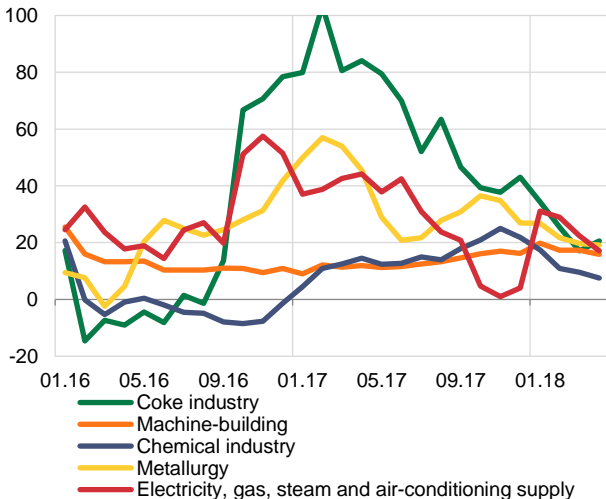
Producer Price Indexes in Mining, % yoy



Source: SSSU.

... also translated into higher prices in the manufacturing sector. The hike in gas tariffs for industry caused prices in the energy sector to rise

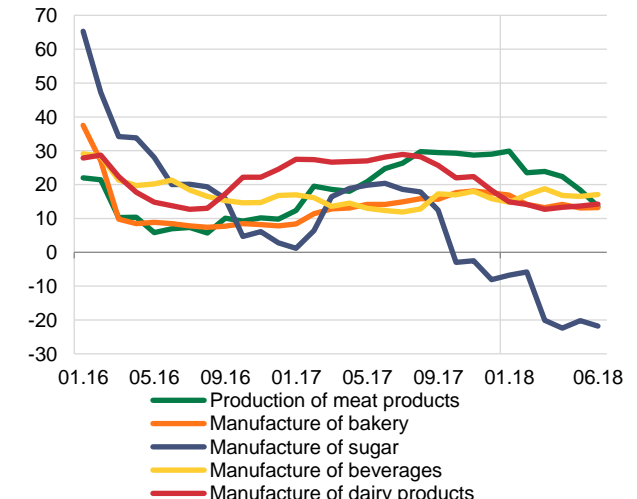
Producer Price Indexes in Select Industries, % yoy



Source: SSSU.

To the downside, due to a slowdown in prices for meat products and the deepening decline in prices in sugar production, the growth in prices in food industry slowed

Prices in the Food Industry Subsectors, % yoy



Source: SSSU.

CPI and PPI growth by components in 2016 - 2018

	Share in CPI for 2018, %	2016	2017	% yoy			% mom June
				Apr	2018 pik May	June	
CPI (NBU classification)							
Consumer Price Index	100.0	12.4	13.7	13.1	11.7	9.9	0.0
Core inflation	58.9	5.8	9.5	9.4	9.3	9.0	0.0
Non-core inflation	41.1	17.5	19.4	17.5	14.1	10.3	-0.1
Raw foods	18.6	1.2	23.5	22.6	14.5	5.2	-1.5
Administered prices and tariffs	18.5	34.6	16.1	13.7	13.3	13.2	1.2
Fuels	4.0	19.5	20.0	16.7	16.5	18.1	0.3
CPI (State Statistics Service of Ukraine classification)							
Food and non-alcohol	42.6	3.3	17.7	17.2	13.7	9.5	-0.5
Alcohol, tobacco	8.3	22.5	20.7	20.5	19.4	18.3	1.6
Clothing and footwear	5.6	5.5	0.9	1.7	2.4	2.5	-2.4
Housing, water, electricity, gas and other fuels incl.:	6.1	47.2	10.6	5.6	4.9	4.7	0.3
Dwelling maintenance	0.3	11.5	47.5	41.6	37.2	28.7	2.1
Water supply	0.2	42.1	20.2	21.4	14.9	12.1	0.1
Hot water	0.2	82.9	0.9	0.9	-0.2	-0.3	0.0
Natural gas	1.7	42.0	1.2	1.2	0.3	0.2	0.0
Central heating	1.1	89.3	3.8	3.8	3.8	3.8	0.0
Electricity	1.0	60.0	28.1	0.0	0.0	0.0	0.0
Transport	11.8	11.4	16.7	13.6	13.7	14.6	0.6
Communication	3.1	4.0	9.1	8.4	8.7	9.0	0.3
Education	1.5	13.7	14.9	15.3	15.2	15.3	0.5
PPI							
	Share in PPI for 2018, %**	2016	2017	% yoy			% mom June
				Apr	2018 pik May	June	
Producer Price Index	100.0	35.7	16.5	14.1	16.5	18.4	1.1
Mining and quarrying	14.7	85.1	30.4	8.3	18.9	25.0	1.6
Manufacturing of coal	2.5	40.4	47.8	22.0	25.9	25.3	0.0
Extraction of crude petroleum and natural gas	5.1	76.5	16.1	8.4	15.2	18.0	0.6
Mining of metal ores	6.0	107.2	29.3	-2.6	16.1	29.2	3.1
Manufacturing	65.7	22.6	18.5	13.9	13.6	13.6	-0.5
Manufacture of foods, beverages and tobacco products	21.2	16.2	12.5	10.7	10.0	9.6	-0.4
Manufacture of coke, and refined petroleum products	3.9	61.7	43.0	20.6	26.1	25.0	-3.8
Manufacture of chemicals and chemical products	2.8	-1.4	21.9	7.5	8.0	8.5	0.0
Manufacture of basic pharmaceutical products and pharmaceutical preparations	1.4	8.5	11.0	11.5	11.8	12.9	1.4
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.1	9.5	12.5	11.9	11.9	12.5	0.8
Manufacture of basic metals and fabricated metal products, except machinery and equipment	18.4	41.8	26.9	19.1	17.7	18.6	-0.7
Manufacture of transport equipment	2.8	11.4	17.9	16.0	16.6	20.8	1.3
Electricity, gas, steam and air-conditioning supply	19.6	51.5	4.0	17.1	23.4	28.1	4.2

* 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 due to 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

NBU – National Bank of Ukraine

NEER – Nominal Effective Exchange Rate

SSSU – State Statistics Service of Ukraine

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

mom – in monthly terms; month-on-month change