



NATIONAL BANK OF UKRAINE

July 2016 Inflation Review

In July 2016, consumer prices fell by 0.1% m-o-m, while in annual terms headline inflation accelerated to 7.9% (from 6.9% in June).

The annual inflation reading was anticipated and was in line with the NBU's forecast published in the Inflation Report (July 2016) which foresees a return of inflation to 12% y-o-y by the end of 2016.

The decline in core CPI and in raw food prices contributed to the monthly deflation in July.

As expected, core CPI declined by 0.4% m-o-m (annual core inflation slowed down to 7.9%). Thus, prices for vehicles, pharmaceuticals, medical supplies and equipment, as well as audio, photographic, and information processing equipment fell, reflecting the exchange rate appreciation in previous months, lower inflation expectations, and weak demand. These factors, reinforced by seasonal effects, have contributed to a marked decline in prices for clothing and footwear. Also, processed food prices remained virtually flat as a result of second-round effects from lower raw food prices.

Raw food prices fell by 1.7% m-o-m, primarily reflecting a sharp seasonal reduction in prices for "borshch¹ vegetables", as well as certain types of fruits. Their decrease is mainly attributed to a seasonal expansion of domestic fresh produce. However, the decline in this sub-index came in slightly below our expectations.

Instead, it was almost entirely offset by lower administrative inflation, which stood at 1.6% m-o-m. The forecast assumption of upward adjustments in hot water tariffs materialized only partially as hot water supply was not available in some regions. Accordingly, following the resumption of hot water supply, the tariff adjustment will be further reflected in price statistics.

Price movements for tobacco products and alcoholic beverages were broadly in line with expectations. The price setting policies of individual producers prompted the rise in prices for tobacco products, while prices for alcoholic beverages rose at a slower pace, reflecting the fading effect of past increases in excise taxes.

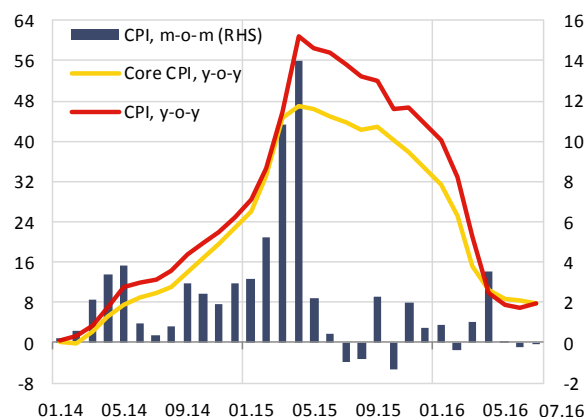
In line with expectations, domestic fuel prices rose by 0.5% m-o-m, reflecting past increases in global oil prices.

Producer price index rose by 4.3% m-o-m in July (annual producer price inflation accelerated to 18.3%), primarily driven by higher prices in the supply of electricity, gas, steam, and conditioned air amid upward adjustment of retail electricity tariffs for industrial entities.

Prices in the mining industry continued to decline, underpinned by a fall in prices in the mining of metal ores. Instead, prices in the processing industry kept on growing at a moderate pace. Thus, amid past increases in global oil prices, prices in the manufacturing of refined petroleum products picked up significantly. Substantial price swings in the production of coke and coke products (including price growth in July) reflected unstable supplies of raw materials. Also, prices in the food manufacturing increased, including resumed price growth in the production of dairy products and sugar. This was partly offset by a reduction in prices in steel production amid correction of global prices.

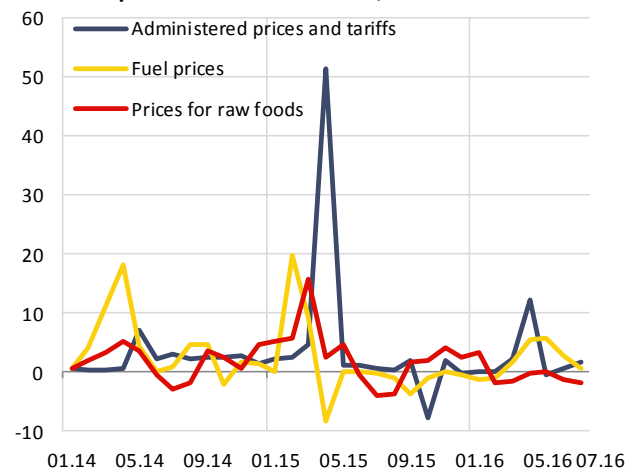
The Review is a translation of the original Review in Ukrainian. In case of any discrepancies between the original document and its English translation, readers should consider the Ukrainian version of the Review as correct.

Inflation Indicators, %



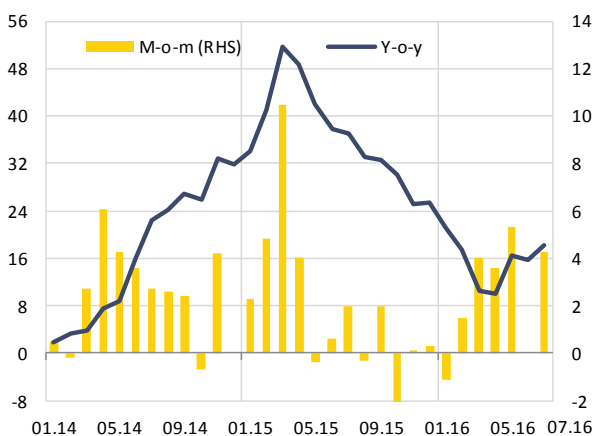
Source: State Statistics Service of Ukraine

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

¹ Borshch is a traditional soup in Ukrainian cuisine. While the recipes of borshch vary, the main ingredients are vegetables such as beet, potato, carrot, cabbage and onion.

CPI and PPI growth by components in 2015-16

CPI (NBU classification)																						
	Share in CPI, %	m-o-m, %																				July, y-o-y %
		2015												2016								
		January	February	March	April	May	June	July	August	September	October	November	December	January	February	March	April	May	June	July		
Consumer Price Index	100.0	3.1	5.3	10.8	14.0	2.2	0.4	-1.0	-0.8	2.3	-1.3	2.0	0.7	0.9	-0.4	1.0	3.5	0.1	-0.2	-0.1	7.9	
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	0.2	-0.1	-0.4	7.9	
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	0.0	-0.1	0.0	7.7	
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	0.2	-1.3	-1.7	3.2	
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	-0.5	0.7	1.6	12.0	
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	5.8	2.7	0.5	7.2	
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	0.2	-0.6	-0.9	4.4	
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	3.3	2.7	2.5	11.0	
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	0.0	-2.0	-3.5	19.7	
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	-2.0	0.1	1.7	13.8	
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	1.1	0.7	2.1	7.6	
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	0.3	0.5	0.2	17.7	
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	0.2	0.1	58.7	59.5	
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	-4.3	0.0	0.0	-4.3	
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	0.0	0.0	0.1	78.4	
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	2.8	1.2	0.4	5.4	
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	0.1	0.0	-0.1	3.9	
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	0.7	1.1	0.5	15.9	
PPI																						
	Share in PPI, %**	m-o-m, %																				July, y-o-y %
		2015												2016								
		January	February	March	April	May	June	July	August	September	October	November	December	January	February	March	April	May	June	July		
Producer Price Index	100.0	2.3	4.8	10.5	4.0	-0.4	0.6	2.0	-0.3	2.0	-2.4	0.1	0.3	-1.1	1.5	4.0	3.6	5.3	0.0	4.3	18.3	
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	19.7	-2.0	-4.0	27.9	
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	-0.1	-8.1	-0.9	9.9	
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	68.8	1.1	-0.4	51.0	
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	7.3	-1.4	-7.4	15.0	
Manufacturing	68.2	2.2	8.4	9.5	1.3	-0.4	0.6	0.2	0.2	0.0	0.0	0.4	-0.2	0.2	1.1	2.7	2.3	4.0	1.5	1.0	14.0	
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	0.3	0.3	2.7	13.0	
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	1.6	2.4	15.9	8.8	
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	1.7	-0.8	-3.4	-4.5	
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	0.2	0.5	0.5	7.5	
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	13.4	5.1	-2.7	25.0	
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	2.2	-2.1	1.3	11.3	
Electricity, gas, steam and air-conditioning supply	18.8	3.4	-5.5	13.4	7.9	1.5	0.8	7.0	-0.1	7.5	-8.7	0.3	3.3	-3.4	0.6	5.7	2.9	2.4	-3.0	16.4	24.4	
* 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 2015.																						