



NATIONAL BANK OF UKRAINE

July 2017 Inflation Review

In monthly terms, headline inflation decelerated to 0.2% in July 2017, from 1.6% in June, reflecting a seasonal decline in prices for fruit and vegetables, as well as prices for clothing and footwear. Annual headline inflation stood at 15.9%. Underlying inflation pressures remained moderate – core inflation stood at 0.1% mom and 7.3% yoy.

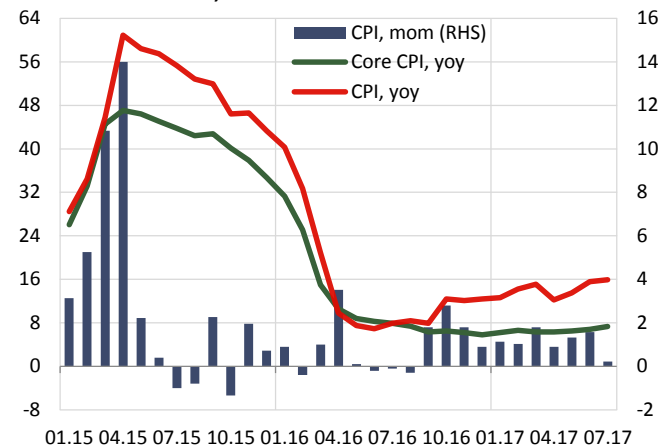
Actual inflation came in above the NBU's forecast trajectory published in the Inflation Report (July 2017), primarily reflecting faster growth in raw food prices and a stronger impact of administered factors.

Core inflation, both in monthly and annual terms, was broadly in line with expectations. In particular, prices for clothing and footwear continued to slow down (to 1.2% yoy) on the back of favorable FX market conditions and steady inflation expectations. Also, the growth rate of prices for other non-food products remained low (3.3% yoy). Meanwhile, secondary effects from rising prices for meat and milk kept prices for processed foods under pressure (meat and sausage products, butter as well as fermented dairy products). As expected, selected service prices that are included in the core CPI (prices for recreational and cultural services, prices for restaurants, cafes and health resort services, as well as prices for dental and medical care) accelerated. In addition, dwelling maintenance tariffs increased further (by 8.8% mom and 48.7% yoy).

Growth of raw food prices accelerated markedly (to 25.5% yoy). Faster-than-expected growth in these prices was primarily driven by a further increase in prices for meat and milk, as well as a slower-than-expected seasonal decline in prices for vegetables and fruits. In particular, meat prices accelerated to 30.6% yoy due to a lower supply of this product amid large volumes of meat exports and livestock reduction. In addition, robust external demand and rising global prices have pushed milk prices up (to 27.3% yoy). Despite a seasonal decrease in prices for vegetables and fruit in monthly terms, those prices declined less than expected. This can be attributed to a more lasting effect of changes in the SSSU methodology for registering prices for seasonal fruit and vegetables¹. As a result, vegetable prices accelerated to 59.9% yoy. In addition, the deceleration in fruit prices was slower than expected (23.8% yoy), reflecting continued effects of late spring frosts on the lower harvest of berries and fruits, as well as a reduction in the supply of selected imported fruits (in particular, grapes) as compared to the previous year.

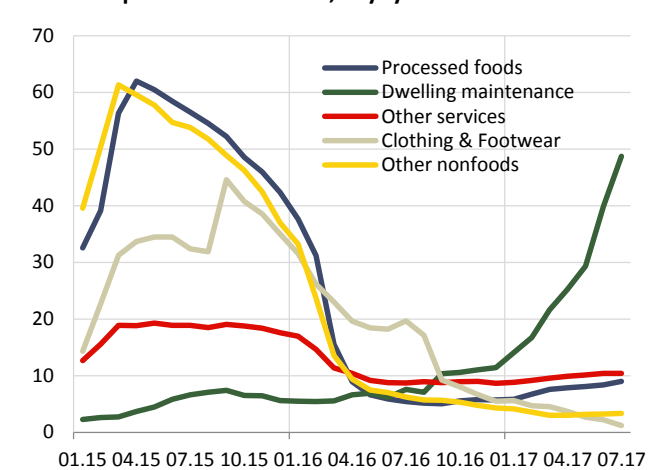
Growth of administered prices and tariffs decelerated to 27.9% yoy mainly due to a favorable base effect (tariffs for hot water were raised in July 2016). However, despite the slowdown, the growth in administered prices came in above the NBU projections due to slower-than-expected deceleration of growth in prices for tobacco products (decelerated to 43.2% yoy and increased by 3.3% mom). This can be attributed both to the delayed effects of difficulties associated with the

Inflation Indicators, %



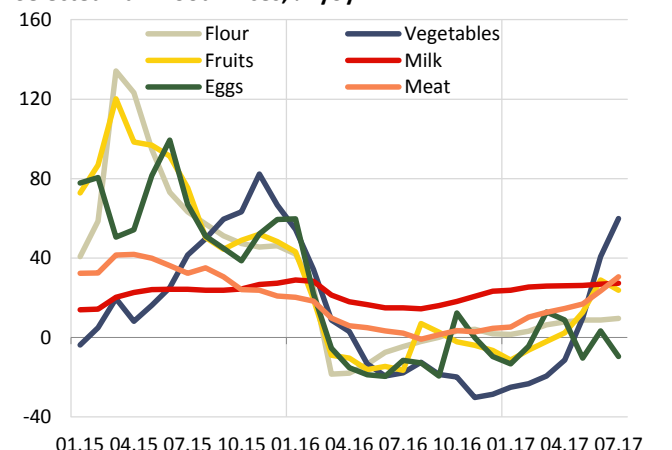
Source: SSSU

Main Components of Core CPI, % yoy



Source: SSSU; NBU staff estimates

Selected Raw Food Prices, % yoy



Source: State Statistics Service of Ukraine

¹ For more details on changes in the SSSU methodology, see "[June 2017 Inflation Review](#)".

distribution of domestically produced goods and lower supply of imported goods (with the latter being more expensive). In addition, the growth in railway transport fares accelerated to 6.4% yoy compared with a 0.3% yoy decline in June, driven by increased prices for additional services (bed linen, commission fees for ticket sales). Also, as expected, prices for passenger road transportation services accelerated, driven by higher public transport fares in the city of Kyiv.

As expected, fuel prices decelerated to 9.7% yoy (were down by 1.1% mom) against the backdrop of past decreases in global oil prices and favorable FX market conditions.

In July 2017, the producer price index continued to decelerate to 23.3% yoy (from 26.3% yoy in June). Producer prices increased by 1.8% mom. As in previous months, the PPI movements were mainly driven by global commodity price developments. In particular, an increase in global iron ore prices triggered an acceleration in prices for domestic iron ore production (to 36.1% yoy). In addition, the price increase for crude oil and natural gas (up to 10.0% yoy) was driven by a slight increase in world oil prices. As a result, the price growth in the mining industry accelerated to 35.7% yoy (from 30.5% yoy in June).

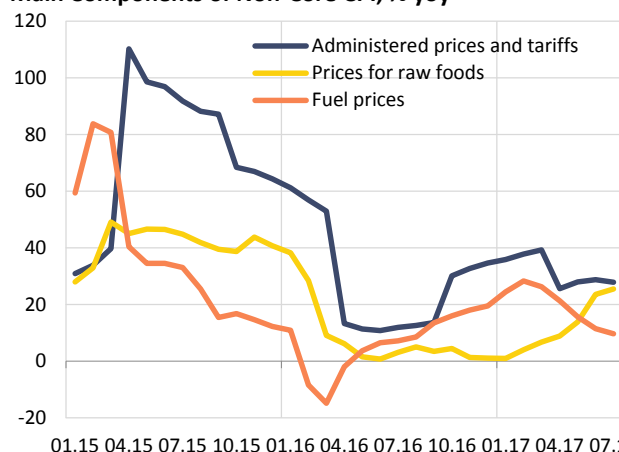
In metallurgy prices also accelerated to 21.7% yoy (from 20.8% yoy in June) amid rising prices for steel in global markets. At the same time, prices in production of coke and refined products decelerated to 52.0% yoy, despite growth by 3.6% in monthly terms, due to the favorable comparison base last year (July 2016 saw higher prices and unstable supply of raw materials for the production of coke and petroleum products).

Producer prices growth in the food processing industry decelerated to 14.7% yoy (from 16.5% yoy in June), although prices moved in opposite directions across selected industries. In particular, prices in beverage production decelerated, including due to slower growth of ethanol prices. In addition, price growth in sugar production slowed against the backdrop of lower world prices. At the same time, prices for meat and meat products (up to 26.3% yoy) and milk products (up to 28.9% yoy) accelerated significantly on the back of robust exports and rising global prices. Prices in the production of bakery and farinaceous products also moderately accelerated (to 14.9% yoy).

The prices in the chemical industry of Ukraine accelerated to 15.0% yoy, although in the monthly terms prices declined due to the seasonal deterioration in demand for agricultural fertilizers. The acceleration of prices in July was due to rising global prices and a renewal of anti-dumping duties on nitrogen fertilizers from the Russian Federation.

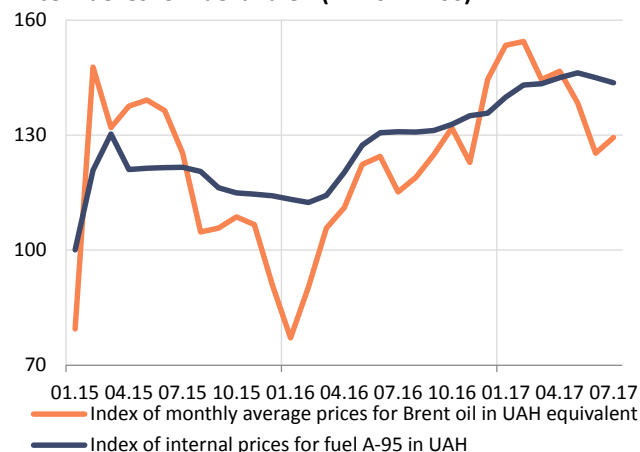
Prices in the supply of electric power, natural gas, steam, and conditioned air decelerated to 31.0% yoy in July (from 42.5% yoy in June). This can be attributed to maintaining a high share of nuclear generation in the total electricity production and slower growth in prices for electricity produced on thermal power plants, amid increasing usage of gas coal, which is cheaper than anthracite. At the same time, in monthly terms electricity prices increased significantly (7.7% mom), which is due to the seasonal increase in the cost of electricity produced

Main Components of Non-Core CPI, % yoy



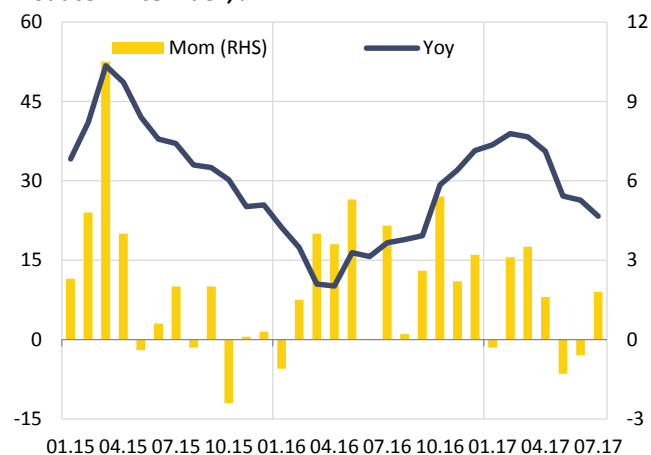
Source: State Statistics Service of Ukraine; NBU staff estimates

Price Indexes for Fuel and Oil (12.2014=100)



Source: State Statistics Service of Ukraine; Thomson Reuters Datastream

Producer Price Index, %

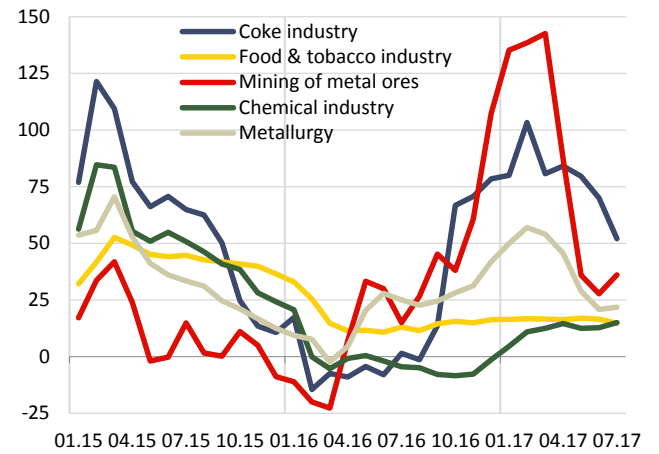


Source: State Statistics Service of Ukraine

by the hydroelectric power plants on the back of a decrease in the flow of water to reservoirs.

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, %									July, mom %
		2015	2016	2017** †							
				January	February	March	April	May	June	July	
Consumer Price Index	100.0	43.3	12.4	12.6	14.2	15.1	12.2	13.5	15.6	15.9	0.2
Core inflation	57.4	34.7	5.8	6.2	6.6	6.3	6.3	6.5	6.8	7.3	0.1
Non-core inflation *	42.6	49.7	17.5	17.9	20.8	22.8	17.7	20.7	25.0	25.2	0.3
Raw foods	19.0	40.7	1.2	1.0	4.1	6.7	8.9	13.8	23.6	25.5	-0.2
Administered prices and tariffs	18.6	64.4	34.6	35.9	37.8	39.3	25.6	28.1	28.8	27.9	0.9
Fuels	5.0	12.5	19.5	24.5	28.4	26.3	21.3	15.7	11.5	9.7	-1.1
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	10.6	15.0	16.3	0.3
Alcohol, tobacco	7.9	22.7	22.5	26.3	30.2	30.2	28.3	27.5	27.4	26.3	1.6
Clothing and footwear	5.4	35.0	5.5	5.6	4.7	4.5	3.7	2.7	2.1	1.2	-4.4
Housing, water, electricity, gas and other fuels incl.:	7.5	103.0	47.2	46.6	46.5	49.5	25.1	28.6	29.2	27.8	0.6
Imputed rentals for housing	0.5	5.4	11.5	14.1	16.8	21.7	25.3	29.3	39.9	48.7	8.5
Water supply	0.3	23.0	42.1	26.7	24.7	24.1	27.3	37.1	40.0	41.2	1.1
Hot water	0.2	55.8	82.9	82.9	83.2	83.3	83.3	83.0	82.9	15.3	0.0
Natural gas	2.1	273.0	42.0	42.0	42.0	42.0	-4.3	0.9	1.0	1.0	0.0
Central heating	1.2	78.7	89.3	89.7	90.1	90.2	90.2	90.2	90.2	90.0	0.0
Electricity	1.0	66.9	60.0	60.0	60.0	63.7	63.7	63.7	63.7	63.7	0.0
Transport	12.1	20.4	11.4	14.9	17.2	16.8	15.7	13.1	11.5	11.1	0.0
Communication	3.2	7.0	4.0	4.1	4.6	7.1	9.4	9.4	9.4	9.4	-0.1
Education	1.6	24.2	13.7	12.1	11.5	10.7	10.3	9.7	8.9	8.5	0.1
PPI											
	Share in PPI for 2017, %***	yoy, %									July, mom %
		2015	2016	2017							
				January	February	March	April	May	June	July	
Producer Price Index	100.0	25.4	35.7	36.8	38.9	38.3	35.6	27.1	26.3	23.3	1.8
Mining and quarrying	13.2	17.6	85.1	109.1	101.0	94.7	75.7	32.4	30.5	35.7	-0.2
Manufacturing of coal	2.4	-0.8	40.4	43.5	21.0	20.5	35.4	37.1	49.8	51.9	0.5
Extraction of crude petroleum and natural gas	4.7	120.3	76.5	123.8	116.2	88.3	94.1	12.0	8.9	10.0	0.5
Mining of metal ores	5.1	-8.9	107.2	135.2	138.5	142.6	87.0	35.9	27.7	36.1	-1.3
Manufacturing	65.1	23.8	22.6	25.6	28.9	27.5	25.4	21.1	18.7	17.8	0.2
Manufacture of food products, beverages and tobacco products	21.8	36.4	16.2	16.4	16.7	16.6	16.3	16.9	16.5	14.7	1.1
Manufacture of coke, and refined petroleum products	3.4	4.7	61.7	79.9	103.3	80.6	84.1	79.5	70.0	52.0	3.6
Manufacture of chemicals and chemical products	3.2	24.2	-1.4	4.5	10.9	12.5	14.5	12.4	12.7	15.0	-1.5
Manufacture of basic pharmaceutical products and pharmaceutical preparations	1.4	31.5	8.5	8.3	9.2	9.0	9.0	9.0	8.7	8.9	0.7
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	11.5	11.6	0.5
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	20.8	21.7	-1.9
Manufacture of transport equipment	2.2	15.5	11.4	9.1	15.4	14.5	16.1	14.2	14.2	16.4	3.3
Electricity, gas, steam and air-conditioning supply	21.8	33.2	51.5	37.1	38.7	42.6	44.2	37.9	42.5	31.0	7.0

* 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.

† Changes in prices for the selected components of the consumer basket according to NBU classification based on SSSU data were revised due to review of the weights calculation methodology.