



NATIONAL BANK OF UKRAINE

August 2017 Inflation Review

In August 2017, headline inflation dropped by 0.1% in monthly terms (grew by 0.2% mom in July), reflecting a seasonal decline in prices for fruit and vegetables, as well as prices for clothing and footwear. Annual headline inflation stood at 16.2%.

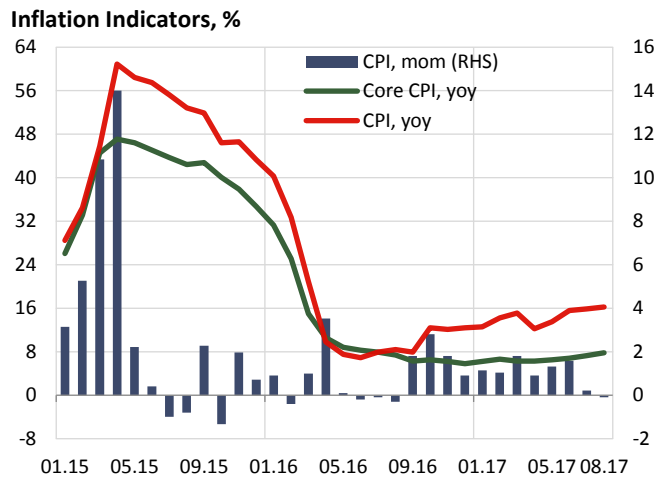
Underlying inflation pressures remained moderate, although core inflation accelerated slightly – core inflation increased by 0.2% mom and 7.8% yoy.

Actual inflation in annual terms came in above the NBU's forecast trajectory published in the July 2017 Inflation Report. This primarily reflected a faster growth in food prices due to supply side effects (unfavorable weather conditions in spring this year, robust exports of meat and dairy products), as well as increased pressure on prices from the production costs.

Core inflation in annual terms came in slightly above the forecast trajectory published in the Inflation Report. This reflected two main factors. First, the major factor was the secondary effects from rising prices for selected raw foods due to supply-side factors. In particular, accelerating prices for processed foods (up by 9.7% yoy), primarily meat and dairy products, contributed the most to the deviation of core inflation from the forecast trajectory. Second, increased production costs, including wages, led to faster than expected growth in prices for services, included in core inflation (11.8% yoy). Meanwhile, the strengthening hryvnia to the US dollar and improving inflation expectations helped restrain pressure on core inflation. In particular, prices for goods with a significant import share (household appliances, equipment for recording and processing of information, household chemicals, etc.) increased by 3.4% yoy, which was lower than forecast.

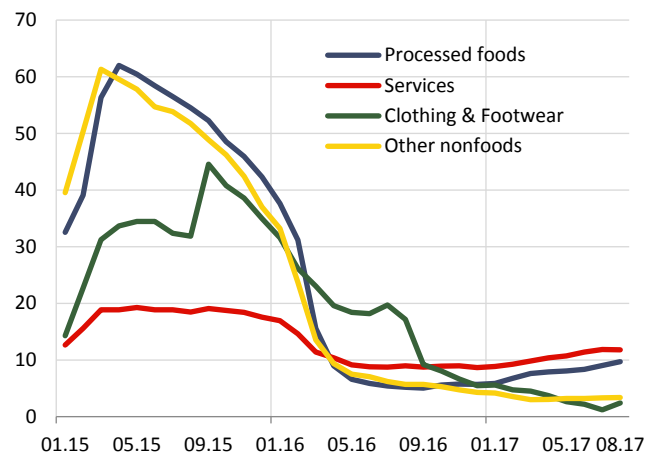
The growth in raw food prices slowed down, although the paces of growth remained relatively high (24.8% yoy). The deceleration was due to slower growth in prices for vegetables (were up by 40.4% yoy compared to 59.9% yoy in July) on the back of increased supply. This was consistent with the expectations of the National Bank that the impact of changes in the SSSU methodology for registering prices for seasonal fruit and vegetables will diminish. At the same time, the deceleration of fruit prices (to 23.1% yoy in August) was more moderate than expected. In particular, this was due to unfavorable weather conditions both in spring this year and in August. In addition, the fast growth of raw food prices was driven by a further rise in prices for meat and raw milk (by 32.4% and 28.9% yoy respectively). This can be attributed to the large export volumes, as well as the declining domestic supply of these products amid livestock reduction. Also, egg prices resumed growth (up by 5.4% yoy) due to the elimination of restrictions on imports of the Ukrainian poultry by a number of countries.

Annual growth rates of administered prices and tariffs remained almost unchanged (27.8% yoy), while a slight slowdown was expected. First of all, prices for tobacco products (up by 41.6% yoy) continued to grow more rapidly than expected, which was primarily due to distribution difficulties in the previous months. In addition, in August, prices for bread and road passenger transport fares accelerated (by 17.3% and 22.4% yoy respectively) due to



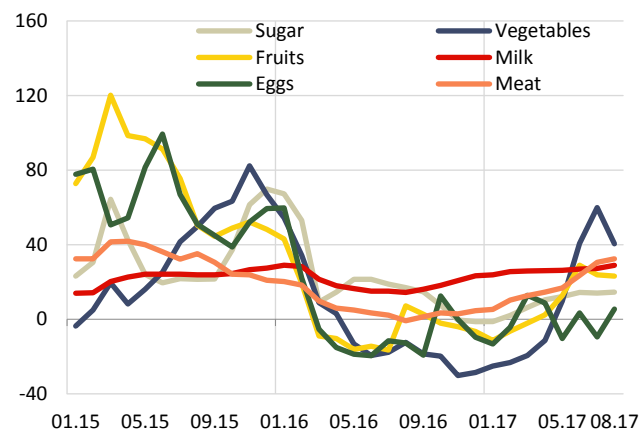
Source: SSSU

Main Components of Core CPI, % yoy



Source: SSSU; NBU staff estimates

Selected Raw Food Prices, % yoy



Source: State Statistics Service of Ukraine

rising production costs, including labor costs. At the same time, the growth of tariffs for cold water and sewage slowed down due to favorable comparison base.

Fuel prices accelerated to 10.1% yoy (increased by 0.5% mom), primarily due to the rapid increase in prices for liquefied gas amid its deficit on domestic market. Also, overall fuel price growth was slower than forecast. This can be attributed to lower global oil prices than envisaged in the assumptions underlying in the forecast published in the July 2017 Inflation Report.

In August 2017, the producer price index increased by 0.4% mom (compared to 1.8% mom in July). Producer prices accelerated to 23.6% in annual terms (from 23.3% in July). As in previous months, the PPI movements were mainly driven by global commodity price developments. In particular, prices in extraction of crude oil and natural gas accelerated (to 17.9% yoy) on the back of higher global oil prices. Rising world prices and a reduction in inventories in Ukraine prompted a substantial increase in prices for coal mining. In addition, prices in domestic iron ore production continued to rise at a high pace (36.1% yoy), driven by rising global iron ore prices. As a result, prices in the mining industry accelerated to 39.6% yoy (from 35.7% yoy in July).

Higher world prices and prices in the previous stages of production caused an acceleration in price growth in metallurgy (up to 27.8% yoy from 21.7% yoy in July), production of coke and refined products (by 63.4% yoy from 52.0% yoy in July).

Prices in the food processing industry accelerated slightly (to 15.7% yoy from 14.7% yoy in July). Thus, prices for meat and meat products continued to accelerate (to 29.7% yoy) amid robust exports and rising world prices. Also, prices accelerated in the production of bakery and farinaceous products (to 15.8% yoy), and production of beverages (to 12.8% yoy). Meanwhile, prices in sugar production slowed down (to 17.8% yoy), dragged lower by the sale of stocks from the previous season in anticipation of a bountiful harvest this year.

Prices in machine-building accelerated (to 13.3% yoy), in particular due to a pick-up in production of vehicles amid a recovery in demand for these products.

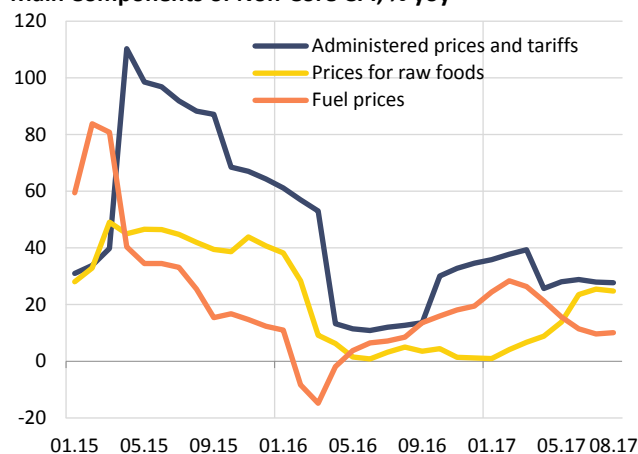
Prices in the Ukrainian chemical industry decelerated to 13.9% yoy. This slowdown occurred due to lower world prices for natural gas and the strengthening of the hryvnia (the share of imports in intermediate consumption in the chemical industry is above 50%¹).

Prices in the supply of electric power, natural gas, steam, and conditioned air decelerated to 23.8% yoy in August (from 31.0% yoy in July). This can be largely attributed to maintaining a high share of nuclear generation in total electricity production.

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.

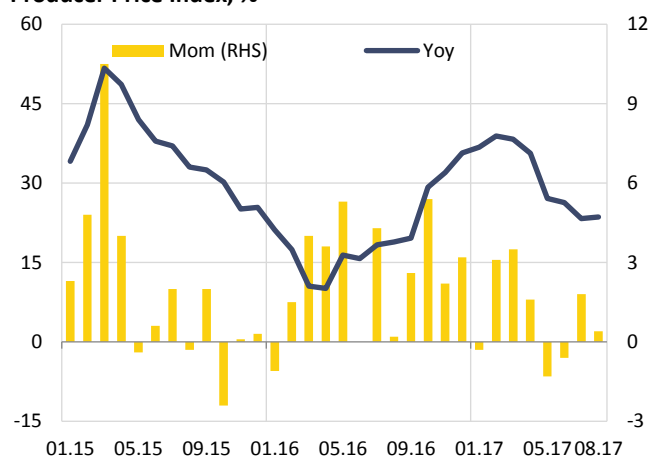
¹ According to Input-Output tables.

Main Components of Non-Core CPI, % yoy



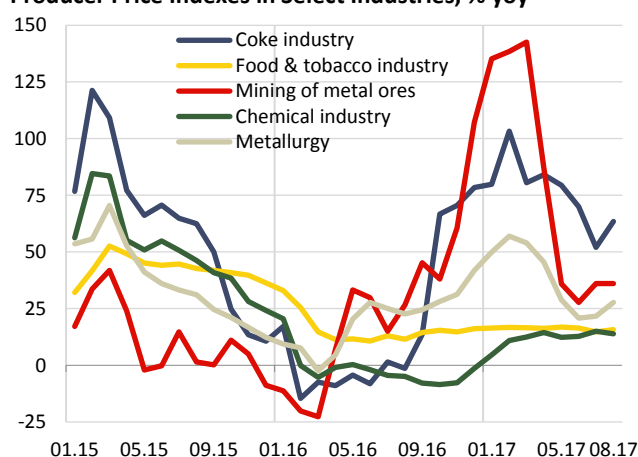
Source: State Statistics Service of Ukraine; NBU staff estimates

Producer Price Index, %



Source: State Statistics Service of Ukraine

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, %										August, mom %
		2015	2016	2017** †								
				January	February	March	April	May	June	July	August	
Consumer Price Index	100.0	43.3	12.4	12.6	14.2	15.1	12.2	13.5	15.6	15.9	16.2	-0.1
Core inflation	57.4	34.7	5.8	6.2	6.6	6.3	6.3	6.5	6.8	7.3	7.8	0.2
Non-core inflation *	42.6	49.7	17.5	17.9	20.8	22.8	17.7	20.7	25.0	25.2	25.0	-0.5
Raw foods	19.0	40.7	1.2	1.0	4.1	6.7	8.9	13.8	23.6	25.5	24.8	-2.5
Administered prices and tariffs	18.6	64.4	34.6	35.9	37.8	39.3	25.6	28.1	28.8	27.9	27.8	0.9
Fuels	5.0	12.5	19.5	24.5	28.4	26.3	21.3	15.7	11.5	9.7	10.1	0.5
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	16.8	-0.6
Alcohol, tobacco	7.9	22.7	22.5	26.3	30.2	30.2	28.3	27.5	27.4	26.3	25.1	1.4
Clothing and footwear	5.4	35.0	5.5	5.6	4.7	4.5	3.7	2.7	2.1	1.2	2.1	-2.4
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	27.3	0.3
Imputed rentals for housing	0.5	5.4	11.5	14.1	16.8	21.7	25.3	29.3	39.9	48.7	49.3	0.5
Water supply	0.3	23.0	42.1	26.7	24.7	24.1	27.3	37.1	40.0	41.2	32.1	1.7
Hot water	0.2	55.8	82.9	82.9	83.2	83.3	83.3	83.0	82.9	15.3	14.4	0.2
Natural gas	2.1	273.0	42.0	42.0	42.0	42.0	-4.3	0.9	1.0	1.0	1.1	0.1
Central heating	1.2	78.7	89.3	89.7	90.1	90.2	90.2	90.2	90.2	90.0	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	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	11.8	0.8
Communication	3.2	7.0	4.0	4.1	4.6	7.1	9.4	9.4	9.4	9.4	9.4	0.0
Education	1.6	24.2	13.7	12.1	11.5	10.7	10.3	9.7	8.9	8.5	8.8	0.1
PPI												
	Share in PPI for 2017, %***	yoy, %										August, mom %
		2015	2016	2017								
				January	February	March	April	May	June	July	August	
Producer Price Index	100.0	25.4	35.7	36.8	38.9	38.3	35.6	27.1	26.3	23.3	23.6	0.4
Mining and quarrying	13.2	17.6	85.1	109.1	101.0	94.7	75.7	32.4	30.5	35.7	39.6	4.7
Manufacturing of coal	2.4	-0.8	40.4	43.5	21.0	20.5	35.4	37.1	49.8	51.9	63.8	6.0
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	17.9	2.2
Mining of metal ores	5.1	-8.9	107.2	135.2	138.5	142.6	87.0	35.9	27.7	36.1	36.1	6.0
Manufacturing	65.1	23.8	22.6	25.6	28.9	27.5	25.4	21.1	18.7	17.8	20.1	1.2
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	15.7	0.9
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	63.4	2.9
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	13.9	-1.3
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	9.3	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	11.5	11.6	11.7	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	27.8	2.5
Manufacture of transport equipment	2.2	15.5	11.4	9.1	15.4	14.5	16.1	14.2	14.2	16.4	18.4	1.8
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	23.8	-3.7

* 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.