



NATIONAL BANK OF UKRAINE

November 2016 Inflation Review

In November 2016, headline inflation stood at 1.8% mom, while it slowed down to 12.1% in annual terms.

The annual inflation reading generally was anticipated and in line with the forecast of the National Bank of Ukraine published in the Inflation Report (October 2016), foreseeing annual CPI growth of 12% in 2016.

The slowdown in annual inflation (down from 12.4% in October) was due to a rapid drop in raw food inflation, which was more significant than projected. However, growth of administered prices and tariffs as well as core inflation slightly exceeded the forecast. Current developments of CPI and its components suggest that actual headline inflation for 2016 will be close to the central point of the target range (12% +/- 3 pp).

In November, core inflation moderated to 6.2% yoy (stood at 0.5% mom). Heightened FX market volatility in the middle of November had a moderate impact on core inflation. Although prices for certain imported goods recorded a mom increase, in annual terms their growth slowed (including clothes and footwear, household appliances, audio, photo and data processing equipment, pharmaceuticals, medical goods and equipment, and vehicles). Besides, core inflation was restrained by a moderate growth in prices for market services. However, prices for processed foods (hard cheeses, buns, cakes, etc.) rose sharply, driven by surging milk and sugar prices.

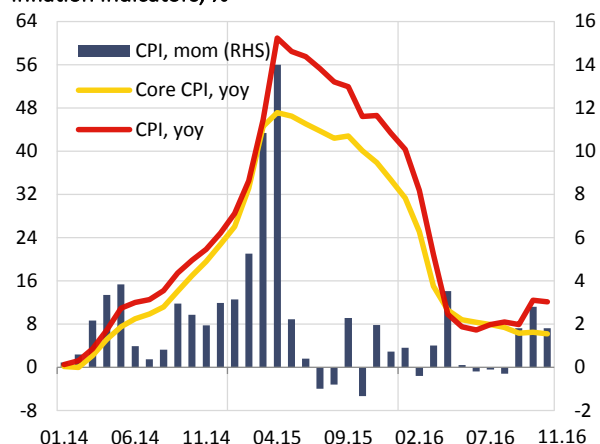
Raw food inflation slowed down to 1.4% yoy (1.1% mom), shaped mainly by the supply side effects. In particular, a deeper decline in prices for select vegetables and fruits was mainly attributed to high domestic supply as well as imports. Thus, domestic prices for certain citrus fruit fell amid a high global harvest for some citrus fruit this year and Russia's ban on imported fruit from Egypt. Growth of prices for meat and meat products slowed down, in particular, due to restrictions on exports of pork given ASF outbreaks. These developments outweighed further acceleration of prices for dairy products, underpinned by stronger demand from food-processing producers on account of high exports of dairy products.

The increase in administered prices and tariffs accelerated to 32.8% yoy (4.0% mom), primarily due to a rise in utility tariffs, in particular, those for heating, hot water and sewage. Growth of prices on tobacco products and alcoholic beverages also sped up.

Fuel prices accelerated to 18.1% yoy (1.8% mom), driven by an increase in global oil prices in October.

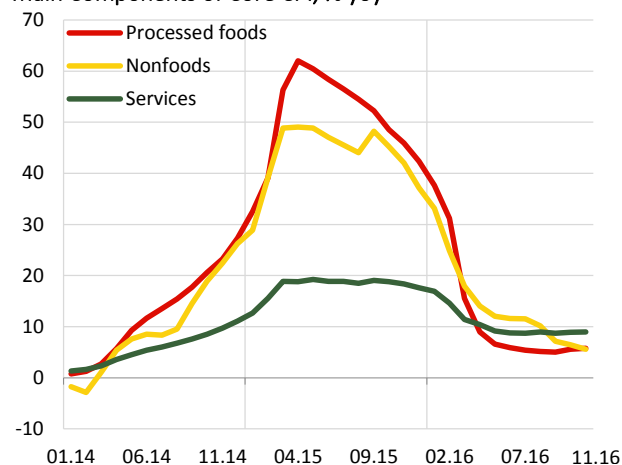
In November, the producer price index growth accelerated further to 32.0% yoy (rose by 2.2% mom), mainly reflecting an

Inflation Indicators, %



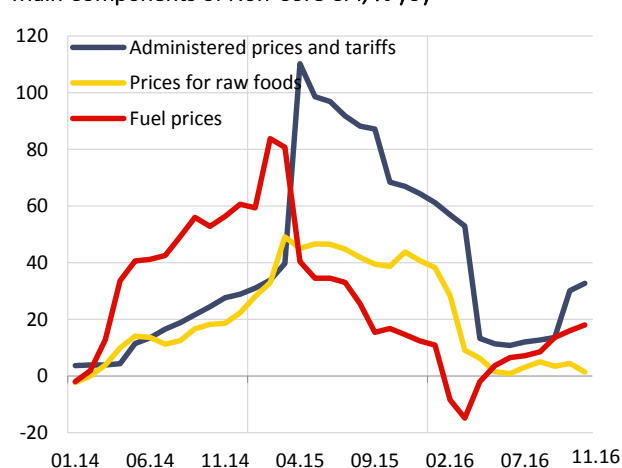
Source: State Statistics Service of Ukraine

Main Components of Core CPI, % yoy



Source: State Statistics Service of Ukraine; NBU staff estimates

Main Components of Non-Core CPI, % yoy



Source: State Statistics Service of Ukraine; NBU staff estimates

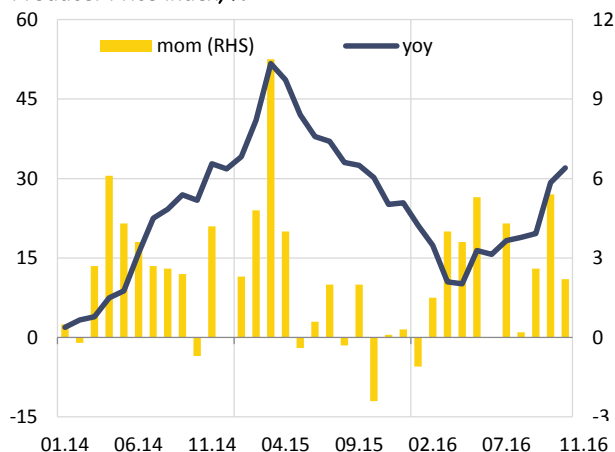
increase in prices for natural gas for industrial consumers.¹ Consequently, electricity, natural gas, steam and conditioned air price sub-index continued to speed up.

Domestic producer prices remained under an upward pressure of global commodity price developments. In particular, the upswing in global iron ore prices in October-November spurred a significant increase in annual paces of growth of domestic prices in the extraction of metal ores. As a consequence, inflation in the mining industry continued to pick up. This pressured prices upwards in the later stages of production, including in metallurgy. Rising crude oil prices facilitated the acceleration of domestic prices in the production of coke and refined petroleum products. Price dynamics in other industries were relatively moderate. In particular, prices in the production of chemicals continued to decline, reflecting past decreases in world fertilizer prices.

The price growth in the food industry slowed down; however, price developments differed significantly across industries. Thus, given high grain harvest this year, prices in the manufacturing of bread slowed down. In contrast, prices in the sugar processing industry increased in November, underpinned by increases in world sugar prices over the past few months and revived exports of sugar.

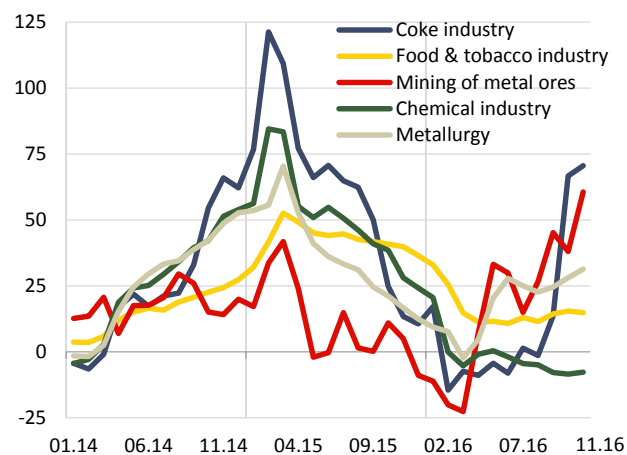
The Review is a translation of the original Review in Ukrainian. In case of any discrepancies between the original document and its English translation, readers should consider the Ukrainian version of the Review as correct.

Producer Price Index, %



Source: State Statistics Service of Ukraine

Producer Price Index by Select Industries, % yoy



Source: State Statistics Service of Ukraine

¹ According to prices, published by NJSC 'Naftogaz of Ukraine' on its official web-site.

CPI and PPI growth by components in 2015 - 2016														
CPI (NBU classification)														
	Share in CPI, %	y-o-y, %												November, m-o-m %
		2015	2016											
			January	February	March	April	May	June	July	August	September	October	November	
Consumer Price Index	100.0	43.3	40.3	32.7	20.9	9.8	7.5	6.9	7.9	8.4	7.9	12.4	12.1	1.8
Core inflation	46.8	34.7	31.3	25.1	15.0	10.6	8.8	8.3	7.9	7.4	6.3	6.5	6.2	0.5
Non-core inflation*	53.2	49.7	46.9	38.5	25.2	9.4	6.4	5.9	7.7	9.0	9.0	17.2	16.9	2.7
Raw foods	28.3	40.7	38.3	28.4	9.2	6.2	1.6	0.8	3.2	5.0	3.5	4.5	1.4	1.1
Administered prices and tariffs	22.5	64.4	61.2	57.0	53.0	13.3	11.4	10.9	12.0	12.7	13.6	30.1	32.8	4.0
Fuels	2.4	12.5	11.1	-8.2	-14.7	-1.9	3.7	6.5	7.2	8.6	13.6	16.0	18.1	1.8
CPI (State Statistics Service of Ukraine classification)														
Food and non-alcohol	50.8	41.5	38.1	29.7	11.4	6.9	3.9	3.2	4.4	5.1	4.2	4.9	3.4	1.0
Alcohol, tobacco	6.9	22.7	15.1	9.8	7.7	8.8	9.9	10.2	11.0	12.4	12.3	14.2	16.4	1.3
Clothing and footwear	7.1	35.0	31.5	26.1	23.0	19.6	18.4	18.2	19.7	17.1	9.2	8.1	6.7	-0.5
Housing, water, electricity, gas and other fuels incl.:	11.3	103.0	103.4	100.8	104.3	17.0	13.3	12.1	13.8	14.3	15.8	44.4	47.2	5.3
Imputed rentals for housing	1.3	5.4	5.3	5.3	5.4	6.6	6.8	6.1	7.6	7.1	10.4	10.6	11.1	0.4
Water supply	0.0	23.0	36.5	36.3	37.0	37.2	28.6	19.9	17.7	27.9	29.8	37.1	40.9	3.0
Hot water	0.4	55.8	55.8	55.6	55.5	55.5	8.0	0.5	59.5	61.0	60.8	69.9	81.0	6.6
Natural gas	2.3	273.0	273.0	273.0	273.0	0.0	-4.3	-4.3	-4.3	-4.3	-4.3	42.0	42.0	0.0
Central heating	1.8	78.7	77.8	77.5	77.7	77.8	78.2	78.2	78.4	78.4	78.4	82.1	89.6	24.6
Transport	5.1	20.4	18.5	1.8	-4.2	2.5	5.1	5.2	5.4	6.0	8.5	10.0	10.5	1.1
Communication	3.3	7.0	6.7	5.8	4.2	4.7	4.2	4.1	3.9	3.7	3.2	1.5	1.2	0.1
Education	1.3	24.2	24.2	20.5	19.2	17.5	16.5	16.1	15.9	15.5	13.8	13.8	13.8	0.3
PPI														
	Share in PPI, %**	y-o-y, %												November, m-o-m %
		2015	2016											
			January	February	March	April	May	June	July	August	September	October	November	
Producer Price Index	100.0	25.4	21.2	17.4	10.5	10.1	16.4	15.7	18.3	18.9	19.6	29.2	32.0	2.2
Mining and quarrying	12.3	17.6	12.7	11.8	8.7	10.3	37.9	35.3	27.9	34.5	44.6	46.8	56.2	4.4
Manufacturing of coal	2.6	-0.8	3.5	21.5	20.7	21.2	20.7	11.0	9.9	7.9	2.5	15.3	15.5	0.0
Extraction of crude petroleum and natural gas	3.9	120.3	89.4	98.2	70.4	-11.5	47.5	51.0	51.0	52.2	65.3	72.4	68.4	-2.1
Mining of metal ores	5.7	-8.9	-11.2	-20.1	-22.7	6.9	33.2	29.9	15.0	26.6	45.2	38.0	60.6	9.7
Manufacturing	68.4	23.8	21.3	13.2	6.2	7.2	12.0	13.1	14.0	13.0	15.4	18.1	18.9	1.0
Manufacture of food products, beverages and tobacco products	23.6	36.4	32.9	25.5	14.7	11.3	11.6	10.7	13.0	11.5	14.4	15.5	14.8	0.9
Manufacture of coke, and refined petroleum products	3.5	4.7	-2.3	-20.6	-10.1	-13.4	-8.6	-6.6	8.8	5.9	23.2	52.5	59.4	3.2
Manufacture of chemicals and chemical products	4.3	24.2	20.6	-0.1	-5.3	-0.9	0.4	-1.9	-4.5	-4.9	-7.9	-8.5	-7.7	-1.1
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.2	29.6	26.1	17.9	9.1	7.7	7.1	7.7	7.5	8.2	9.8	10.2	9.9	0.4
Manufacture of basic metals and fabricated metal products, except machinery and equipment	18.5	12.4	9.4	7.7	-2.4	4.6	20.4	27.8	25.0	22.6	24.5	28.1	31.3	1.9
Manufacture of transport equipment	2.6	15.5	22.1	13.0	11.9	13.3	15.2	10.3	11.3	11.3	12.1	11.5	8.5	-0.6
Electricity, gas, steam and air-conditioning supply	19.3	33.2	24.5	32.5	23.6	17.8	18.9	14.4	24.4	27.0	19.8	51.2	57.5	4.5
* 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.														