



NATIONAL BANK OF UKRAINE

April 2015

Inflation Review

In April, headline inflation accelerated further to 14.0% mom and 60.9% yoy. As anticipated, a hike in natural gas prices for the population (by 5.5 times) made the highest contribution to monthly inflation (9.3 p.p.). Overall, administered prices and tariffs contributed 11.0 p.p. to monthly inflation (also due to the increase in electricity tariffs by 33.6%).

The rise in prices for other components of the consumer basket slowed significantly. In particular, core and raw food inflation moderated to 4.6% mom and 2.6% mom, respectively, which can be attributed to the fading impact of the exchange rate pass-through.

Producer price index (hereinafter - PPI) increased by 4.0% mom. There was a significant rise in prices for the extraction of crude oil and natural gas (by 86.2%), in particular due to an increase in the royalty rate on the use of subsoil for natural gas companies extracting gas for households. Producer price inflation in processing industry slowed to 1.3% mom in April (down from 9.5% mom in March).

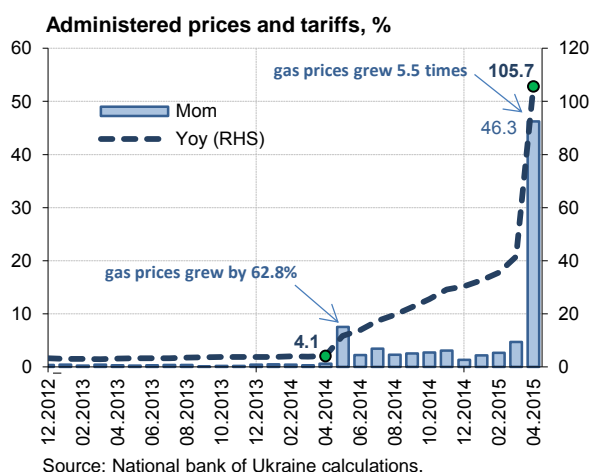
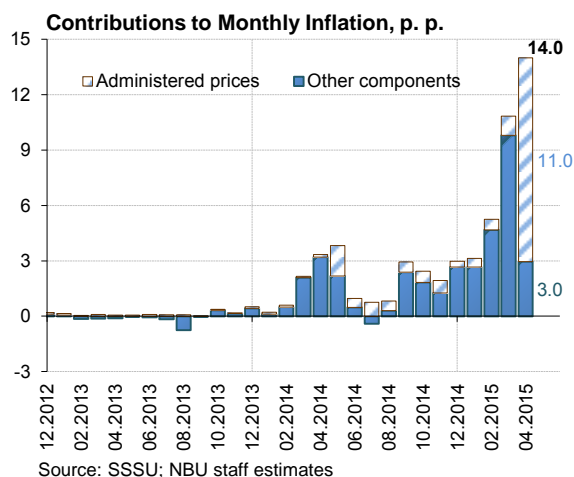
The growth of consumer price index (hereinafter - CPI) accelerated in April to 14.0% mom (60.9% yoy), which was primarily due to a significant contribution (11 p.p.) from the increase in administered prices by 46.3% mom.

The administrative nature of inflation was attributed to the increase in natural gas prices for households. However, the magnitude of the gas prices increase (5.5 times) published by the State Statistics Service of Ukraine (SSSU) was unexpectedly high due to incomplete statistical coverage of natural gas prices for households (see Annex 1). According to the NBU estimates based on the data of NJSC Naftogaz of Ukraine, the **weighted average natural gas price rose 3.5 times in April.**

Within utility services, there was also a significant increase in electricity tariffs for households - by 33.6% mom in April.

Excluding an administrative component, inflation slowed significantly and amounted to 3.5% mom, indicating a waning influence of the devaluation pass-through amid stabilization of hryvnia exchange rate and reduction of devaluation expectations (thus, in April, household exchange rate expectations for the next 12 months declined to UAH 27.5 per US dollar compared with UAH 29.4 per US dollar in March). At present, the impact of hryvnia strengthening with respect to US dollar in March and April on consumer prices was not significant due to asymmetric pass-through of the exchange rate fluctuations on prices (prices tend to increase faster in response to devaluation than they fall following an appreciation). However, in the longer term, hryvnia appreciation should reduce lagged effects of hryvnia devaluation that occurred earlier.

Core inflation moderated to 4.6% mom, but accelerated to 47.1% in annual terms. Processed food prices rose by 6.6% mom (59.5% yoy) reflecting the lagged effects of hryvnia



devaluation and the ongoing pass-through of growing energy and raw food prices.

Narrow core inflation (which is mainly represented by non-food products excluding fuels) slowed to 4.6% mom (slightly accelerated to 47.1% in annual terms). Although overall non-food prices showed on an upward trend for the second month in a row, the prices of cars continued to decrease - by 7.9% mom in April. A decrease in special import duties on passenger cars by 50%¹ was among the factors which pushed the car prices down in the reporting month.

Services inflation was the slowest among main CPI components – prices grew by 1.0% mom and 17.3% yoy, as they are least dependent on the exchange rate developments.

The price growth for the non-core CPI components excluding administered prices also subsided.

Raw food inflation moderated to 2.6% mom. In particular, the growth of prices for fruits and vegetables slowed to 2.3% mom and 3.4% mom, respectively, while sugar prices decreased (by 7.2% mom) after a significant rise in March (by 39.2% mom) in response to feverish consumer demand.

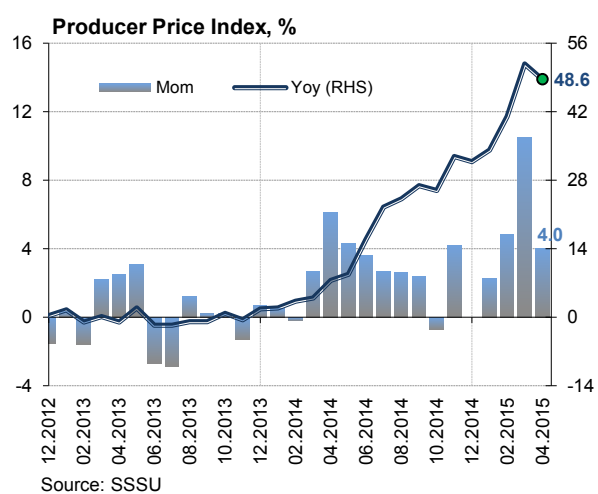
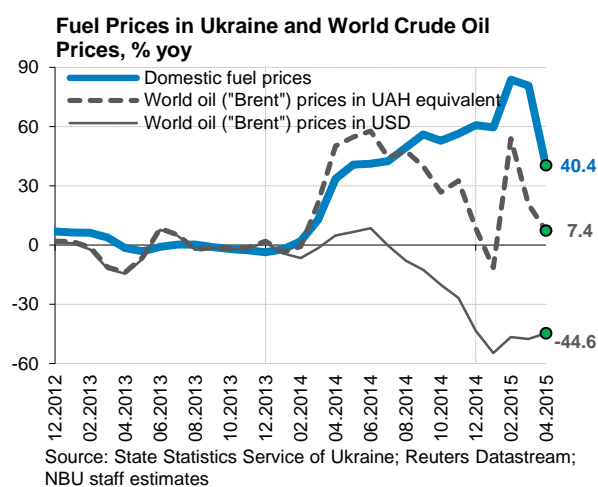
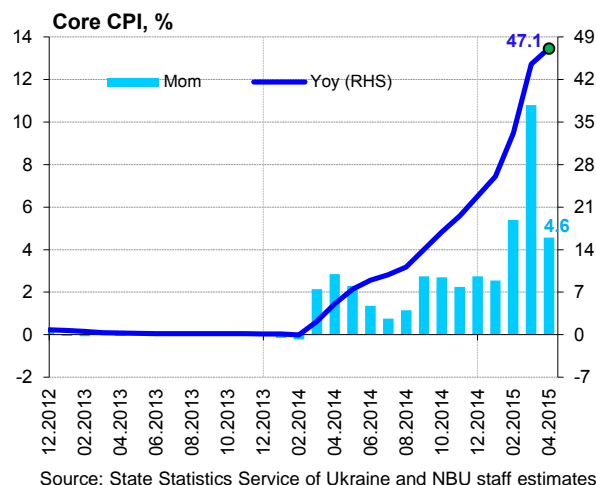
Fuel prices fell by 8.3% mom in April reflecting hryvnia strengthening over the last two months. Thus, prices of liquefied gas for motor vehicles declined by 24.7% mom, partially correcting a sharp increase (by almost 55% mom) in the previous month. In annual terms, fuel price inflation notably slowed to 40.4% from 80.8% in March, which, in addition to the above mentioned forces, was a result of a high base effect.

PPI growth moderated to 4.0% mom and to 48.6% yoy.

The highest increase in prices was observed in the extraction of crude oil and natural gas (by 86.2% mom), which can be attributed to a rise in the royalty rate (to 70% from previous 20%) on the use of subsoil for natural gas companies extracting gas for households from gas deposits, which do not exceed 5 km in depth.

Hryvnia strengthening with respect to US dollar in March-April combined with descending world commodity prices contributed to a decline in prices in the extraction of iron ore and chemical industry by 7.9% mom and 4.7% mom, respectively, and stabilization of prices in steel industry (up by 0.4% mom). As a result, there was a significant deceleration in the annual growth of producer prices to 23.9%, 55.2% and 52.7% in the respective industries.

The producer price inflation in the processing industry also edged down to 1.3% mom from 9.5% in March.



¹ In accordance with the previously released decision of the Joint Commission on International Trade, starting from April 14, 2015 the rates of the import duties were reduced by 50% for cars with engine capacity of 1-1.5 liters to 2.15% and for cars with engine capacity of 1.5-2.2 liters to 4.32 %.

An increase in natural gas prices for households

According to the National Bank of Ukraine, in April the State Statistics Service of Ukraine recorded an overestimated growth in gas prices for households due to incomplete coverage of prices for different categories of consumers. Thus, the weighted average growth (by volumes of gas consumption) in gas tariffs for population stood at 3.5 times, while the SSSU reported a 5.5-fold increase.

First, in April, the overwhelming majority of the Ukrainian population paid for gas at a price of UAH 3.6 per 1 m³ (a tariff set for the consumed amount of natural gas below 200 m³ per month during the heating period). At the same time, the SSSU registered the maximum price (UAH 7.188 per 1 m³, a tariff set for households who live in multifamily apartment buildings and use natural gas for cooking and/or water heating purposes), the single price which will be effective only during the non-heating period (from May 2015 to September 2015). Thus, April's inflation reflected not only the actual gas price increase, but also the rise scheduled for May.

Second, as a basis for comparison, the SSSU used the gas price of households who consume gas for cooking and/or water heating, live in multifamily apartment buildings and do not have gas meters (UAH 1.299 for 1 m³) but this category accounts for a relatively small share of gas consumption, and the price is 10.6% lower than the weighted average price².

Gas prices for households by category of consumption		
Categories of gas consumers	Price per 1m ³ incl. VAT, UAH	Share in total gas consumed by population, %
from 01.05.2014 to 31.03.2015		
For gas consumed for cooking and/or water heating by households who live in multifamily apartment buildings:		
with gas meters installed	1.182	11.8
without gas meters	1.299	
For gas consumed including for heating purposes, if the volumes of gas do not exceed 2500 m ³ per year:		
with gas meters installed	1.089	60.3
without gas meters	1.197	
the volumes of gas do not exceed 6000 m ³ per year:		
with gas meters installed	1.788	26.5
without gas meters	1.965	
the volumes of gas exceed 6000 m ³ per year:		
with gas meters installed	3.645	1.5
without gas meters	4.011	
April 2015		
All categories of consumers:		
for the volumes of gas less than 200 m ³ per month (inclusive)	3.600	due to warm weather, almost all consumers of gas likely consumed gas within 200 m ³
for the volumes of gas exceeding 200 m ³ per month	7.188	
from 01.05.2015 to 30.09.2015		
All categories of consumers	7.188	100
from 01.10.2015 to 30.04.2016		
For consumers who use gas for heating and/or other purposes:		
for the volumes of gas less than 200 m ³ per month (inclusive)	3.600	60*
for the volumes of gas exceeding 200 m ³ per month	7.188	40*
For consumers who use gas for cooking and/or water heating		
* Naftogaz forecast		

² According to the National Bank of Ukraine estimates based on Naftogaz data, households who consume natural gas for cooking and/or heating water, live in multifamily apartment buildings and do not have gas meters accounts for about 11.8% of all gas consumed by population.

CPI and PPI growth by components*					
CPI (NBU classification)					
	share in CPI, %	monthly change		annual change	
		change, %	contribution to CPI change, p. p.	change, %	contribution to CPI change, p. p.
Consumer Price Index	100.0	14.0	14.0	60.9	60.9
Core inflation	47.7	4.6	2.4	47.1	22.5
Non-core inflation	52.3	22.6	11.6	74.3	38.4
Raw foods	28.2	2.6	0.8	51.1	14.4
Administered prices and tariffs	22.0	46.3	11.0	105.7	23.2
Fuels	2.1	-8.3	-0.2	40.4	0.8
CPI (SSSU classification)					
Food and non-alcoholic beverages incl.:	50.7	4.4	2.2	53.7	27.2
Bread and cereals	7.7	5.9	0.5	83.2	6.4
Bread	2.9	6.2	0.2	75.6	2.2
Wheat	0.5	-0.3	0.0	123.3	0.7
Meat	12.1	4.4	0.5	39.5	4.8
Fish	3.6	4.4	0.2	83.1	3.0
Milk	1.9	2.1	0.0	22.6	0.4
Eggs	1.2	-5.3	-0.1	54.3	0.6
Oil and fats	4.8	4.3	0.2	54.7	2.6
Edible animal fats	1.1	1.5	0.0	40.9	0.5
Fruits	3.5	2.3	0.1	98.4	3.5
Vegetables	4.1	3.4	0.1	8.2	0.3
Potatoes	1.1	-5.3	-0.1	-38.5	-0.4
Sugar	1.1	-7.2	-0.1	42.6	0.5
Alcoholic beverages, tobacco	6.9	1.8	0.1	37.9	2.6
Clothing and footwear	7.0	4.6	0.3	33.7	2.4
Housing, water, electricity, gas and other fuels incl.:	11.1	109.7	12.1	188.2	20.8
Imputed rentals for housing	1.4	0.9	0.0	3.5	0.0
Hot water	0.4	0.0	0.0	48.8	0.2
Natural gas	2.0	453.4	9.3	800.9	16.4
Central heating	1.8	-0.1	0.0	47.8	0.9
Transport	4.9	-4.3	-0.2	43.8	2.2
Fuels and lubricants	2.1	-8.3	-0.2	40.4	0.8
Passenger transport by railway	0.2	2.0	0.0	24.8	0.1
Passenger transport by road	1.6	3.6	0.1	43.7	0.7
Communication	3.4	0.0	0.0	5.5	0.2
Education	1.4	1.8	0.0	15.2	0.2
<i>Others</i>	14.6	-	-0.6	-	5.3
PPI					
	share in PPI, %	monthly change		annual change	
		change, %	contribution to PPI change, p. p.	change, %	contribution to PPI change, p. p.
Producer Price Index	100.0	4.0	4.0	48.6	48.6
Mining and quarrying	13.0	11.5	1.5	57.9	7.5
Manufacturing of coal	3.2	-0.3	0.0	48.0	1.5
Extraction of crude petroleum and natural gas	2.6	86.2	2.3	172.9	4.6
Mining of metal ores	6.1	-7.9	-0.5	23.9	1.5
Manufacturing	68.2	1.3	0.9	45.6	31.1
Manufacture of food products, beverages and tobacco	21.5	3.3	0.7	49.2	10.6
Manufacture of coke, and refined petroleum products	3.7	0.2	0.0	39.4	1.5
Manufacture of chemicals and chemical products	3.9	-4.7	-0.2	55.2	2.2
Manufacture of rubber and plastics products, and other non-metallic mineral products	4.8	3.3	0.2	47.2	2.2
Manufacture of basic metals and fabricated metal products, except machinery and equipment	19.2	0.4	0.1	52.7	10.1
Manufacture of transport equipment	3.2	0.6	0.0	14.4	0.5
Electricity, gas, steam and air-conditioning supply	18.8	7.9	1.5	52.8	10.0

* NBU estimates based on SSSU data. The sum of contributions, given in the tables, may not equal the total growth rate due to data rounding.