



NATIONAL BANK OF UKRAINE

May 2015

Inflation Review

As it was expected, in May the growth of Consumer Price Index (CPI) significantly slowed and was 2.2% mom and 58.4% yoy (down from 60.9% yoy in April).

Core inflation decelerated for the second month in a row and stood at 1.9% mom and 46.5% yoy in May. In seasonally adjusted terms, monthly core inflation rate (1.5%) was the lowest for the last nine months.

The turnaround in inflationary pressures was primarily related to Hryvnia strengthening in March - May, which impact on prices overlapped with the lagged effects of a sharp February's Hryvnia devaluation causing a downward correction of prices on a wide range of imported goods.

The growth rate of food prices decreased to 3.1% mom (and to 53.0% yoy) notwithstanding a significant rise in prices on fruits and vegetables, which was only partially attributed to seasonal factors.

Industrial producer prices fell by 0.4% mom (the growth decreased to 42.0% yoy), mainly driven by lower prices along the key stages of metallurgical production chain - in the extraction of iron ore, coke and oil-refining as well as metallurgy.

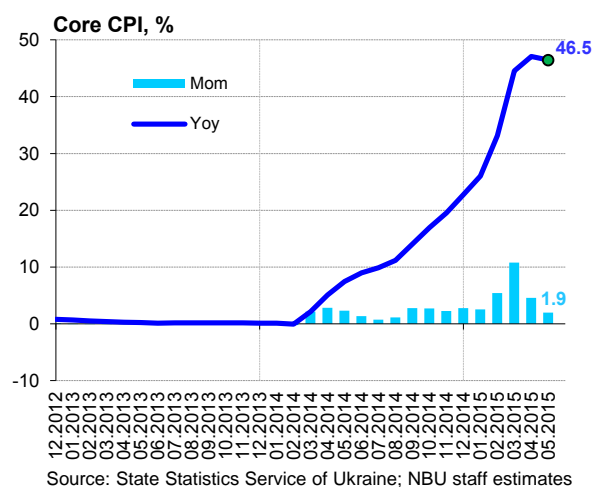
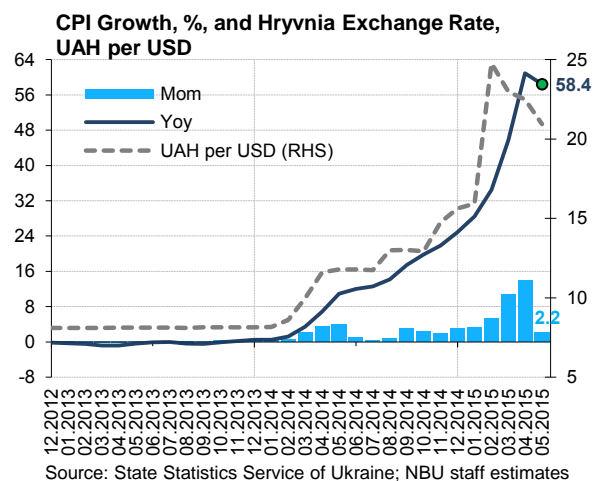
In May, CPI growth slowed to 2.2% mom after having accelerated since the end of 2014 due to significant exchange rate fluctuations and a considerable rise in the utility tariffs. Annual inflation slowed to 58.4% for the first time since the beginning of 2014.

In May, core inflation slowed for the second month in a row to 1.9% mom (46.5% yoy) and in seasonally adjusted terms was the lowest for the last nine months – 1.5%.

The turnaround in inflationary pressures was primarily related to the stabilization of the FX market, revealed through Hryvnia strengthening with respect to US Dollar during March – May (weighted average exchange rate in the interbank market appreciated by 15.5% over the period). As a result, the impact of the lagged effects of a sharp February's Hryvnia devaluation significantly weakened, while a number of commodity groups, with a significant share of imported goods, reported a decrease in prices (cars, select fuels, household appliances and pharmaceuticals).

A gradual reduction in public's expectations was another factor behind easing inflationary pressures. In May, the 12-month-ahead Hryvnia exchange rate and inflation expectations declined from UAH 27.5 per USD to UAH 26.0 per USD from 23.3% to 20.5% respectively¹.

Prices for foods (primarily processed ones), which are included in the core CPI, grew by 2.7% mom.



¹ Information provided by GfK Ukraine.

The growth rate in non-food prices significantly decreased. In particular, the increase in prices for pharmaceuticals slowed to 1.2% mom mainly on account of weakening price growth of imported medicines (0.8% mom in May with a number of items recording negative inflation rates).

Services inflation was 1.2% mom (slightly accelerating from 1.0% mom in April), underpinned by a 34.8% increase in prices for personal vehicle insurance.

Raw food prices grew the most among the main CPI components in May (up by 3.4% mom from 2.6% mom in April). **The value of “borshch²” vegetables, excluding potato (prices for which usually decline in May), significantly increased - by 56.5% mom or by 28.7% mom on a seasonally-adjusted basis due to weather-related late start of a new fresh vegetable season, higher production costs and worse 2015 harvest expectations.**

Fruit prices continued to grow fast by 9.5% mom in May (6.2% mom if adjusted for seasonal effects). In particular, apple prices rose by 31.7% mom due to falling domestic inventories and growing more expensive imports.

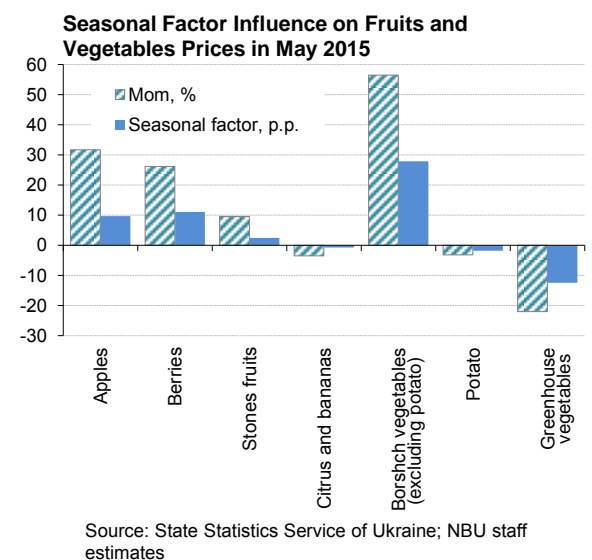
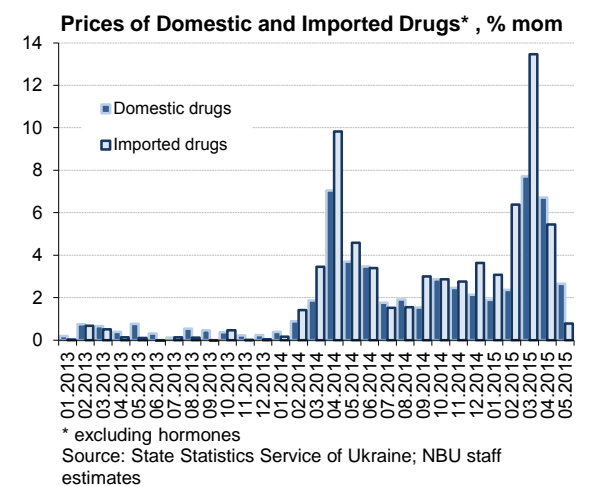
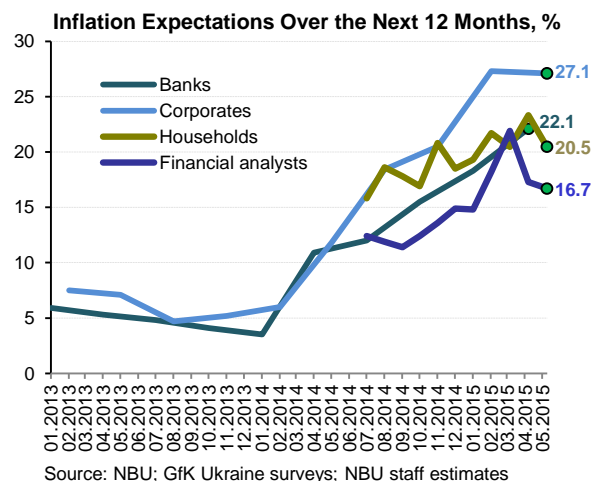
In May, administered prices were up by 2.1% mom, the lowest monthly rate of increase since the beginning of this year. During the month under review, tariffs on hot and cold water and sewerage were raised by 44.3%, 7.0% and 6.2%, respectively. **The annual growth of administered prices slowed to 95.3% but maintained the largest contribution to annual inflation (21 p. p.).**

In May, fuel prices remained almost unchanged (up by 0.1% mom) as some increase in world crude oil prices (in US Dollars) was absorbed by the Hryvnia appreciation with respect to US Dollar (by 15.3% over the last two months). Annual fuel inflation slowed for the third consecutive month and was 34.5% with the disinflation trend supported also by a favorable base effect.

Although fuel prices showed signs of stabilization, the prices on passenger transportation increased by 2.6% mom in May. In particular, the abolition of Government’s mandatory approval of tariffs charged by passenger transportation service providers triggered acceleration in price growth for suburban and intercity bus transportation services.

Producer price index (PPI) fell by 0.4% in May. Annual PPI growth slowed to 42.0% in the reporting month (from 48.6% in April).

The decline in producer prices on a monthly basis was driven by a decrease in prices in the mining of metal ores (by

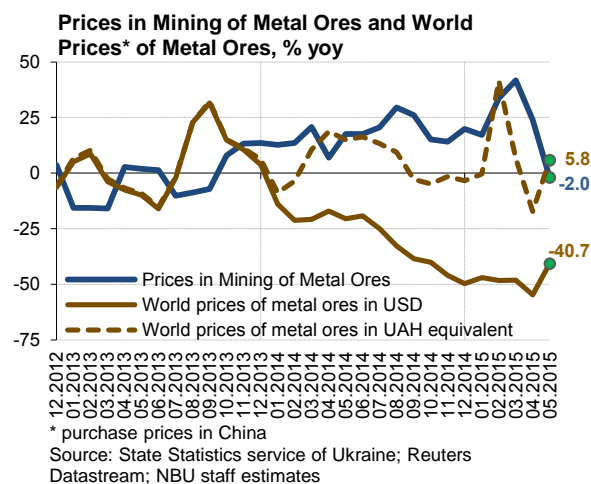
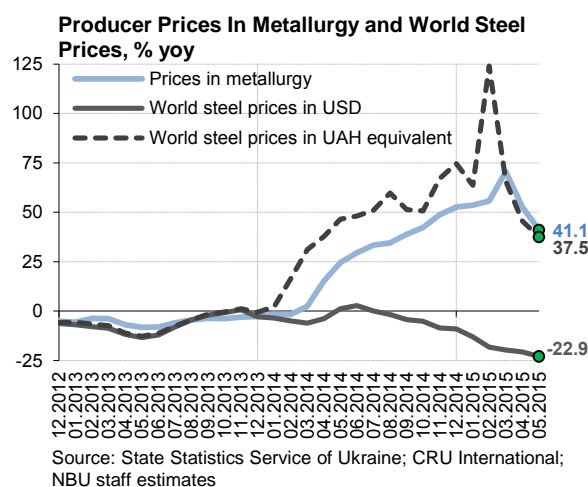
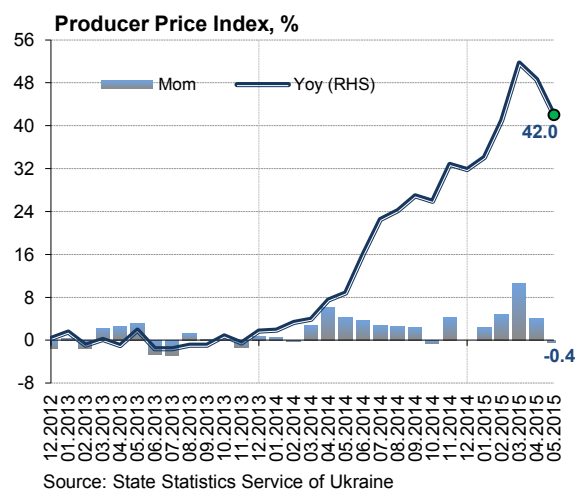


² Borshch is a traditional soup in Ukrainian cuisine. While the recipes of borshch vary, vegetables are the main ingredients: beet, potato, carrot, cabbage and onion.

13.9%) and the manufacture of coke and oil-refining products (by 2.9%), which also contributed to a decline in prices in metallurgy by 1.5% (deflation in the industry was recorded for the first time since the end of 2013).

With one month lag, developments in domestic producer prices in the mining of iron ores and metallurgy are closely linked to the evolution of world ore and steel prices, adjusted for Hryvnia exchange rate fluctuations. The respective world prices in dollars have been decreasing since the end of 2013 but in previous periods their impact was more than offset by Hryvnia devaluation. Due to Hryvnia strengthening, global prices decreased also in Hryvnia equivalent during March – April 2015. In addition to external factors, the decrease in prices in metallurgy was underpinned by weakening domestic demand for metallurgical products (in particular, due to ongoing recession in the construction sector).

Despite falling international prices on Ukraine’s main export commodities in US Dollar terms, the mining of metal ores was the only industry that reported a decrease in prices in annual terms in May (by 2.0% yoy). At the same time, the decline may be temporary given the recovery of world ore prices on a monthly basis in May.



Annex

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	2.2	2.2	58.4	58.4
Core inflation	47.7	1.9	0.9	46.5	22.2
Non-core inflation	52.3	2.5	1.3	69.7	36.2
Raw foods	28.2	3.4	0.9	51.7	14.6
Administered prices and tariffs	22.0	2.1	0.4	95.3	21.0
Fuels	2.1	0.1	0.0	34.5	0.7
CPI (SSSU classification)					
Food and non-alcoholic beverages incl.:	50.7	3.1	1.6	53.0	26.9
Bread and cereals	7.7	-0.1	0.0	75.4	5.8
Bread	2.9	0.6	0.0	69.1	2.0
Wheat	0.5	-5.6	0.0	94.7	0.5
Meat	12.1	2.1	0.3	37.6	4.6
Fish	3.6	-0.4	0.0	71.3	2.6
Milk	1.9	-0.9	0.0	24.1	0.5
Eggs	1.2	9.7	0.1	81.4	0.9
Oil and fats	4.8	1.2	0.1	54.3	2.6
Edible animal fats	1.1	-0.3	0.0	40.3	0.4
Fruits	3.5	9.5	0.3	96.8	3.4
Vegetables	4.1	12.0	0.5	16.2	0.7
Potatoes	1.1	-3.2	0.0	-45.8	-0.5
Sugar	1.1	-6.7	-0.1	24.0	0.3
Alcoholic beverages, tobacco	6.9	2.2	0.2	38.9	2.7
Clothing and footwear	7.0	1.0	0.1	34.5	2.4
Housing, water, electricity, gas and other fuels incl.:	11.1	1.2	0.1	158.5	17.6
Imputed rentals for housing	1.4	0.9	0.0	4.4	0.1
Hot water	0.4	44.3	0.2	115.1	0.4
Natural gas	2.0	0.0	0.0	453.4	9.3
Central heating	1.8	-0.2	0.0	47.7	0.8
Transport	4.9	0.2	0.0	39.1	1.9
Fuels and lubricants	2.1	0.1	0.0	34.5	0.7
Passenger transport by railway	0.2	-0.4	0.0	25.2	0.1
Passenger transport by road	1.6	2.6	0.0	41.5	0.7
Communication	3.4	0.6	0.0	5.9	0.2
Education	1.4	1.5	0.0	16.9	0.2
<i>Others</i>	14.6	-	0.2	-	6.5
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	-0.4	-0.4	42.0	42.0
Mining and quarrying	13.0	-4.3	-0.4	44.7	5.8
Manufacturing of coal	3.2	0.4	0.0	48.0	1.5
Extraction of crude petroleum and natural gas	2.6	1.3	0.0	171.7	4.5
Mining of metal ores	6.1	-13.9	-0.9	-2.0	-0.1
Manufacturing	68.2	-0.4	-0.2	39.8	27.4
Manufacture of food products, beverages and tobacco	21.5	0.0	0.0	45.1	9.7
Manufacture of coke, and refined petroleum products	3.7	-3.7	-0.1	34.5	1.3
Manufacture of chemicals and chemical products	3.9	0.4	0.0	50.9	2.0
Manufacture of rubber and plastics products, and other non-metallic mineral products	4.8	0.7	0.0	42.1	2.0
Manufacture of basic metals and fabricated metal products, except machinery and equipment	19.2	-1.5	-0.3	41.1	7.9
Manufacture of transport equipment	3.2	0.5	0.0	10.0	0.3
Electricity, gas, steam and air-conditioning supply	18.8	1.5	0.2	46.2	8.8

* 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.

** The shares of PPI components are NBU estimates based on SSSU data on volume of industrial production by type of activity for 2014.