

Consumer inflation decelerated to 4.1% yoy (down from 5.1% yoy in November), its lowest level since April 2014. In monthly terms, the CPI decreased by 0.2%: it was the first case of deflation on record since 1991. Consumer inflation remained within the target range of $5\% \pm 1$ pp, while approaching the lower bound. The NBU's consistent monetary policy, which aims to deliver price stability, and the government's prudent fiscal policy were key to bringing inflation down to its target level in 2019. The disinflation was driven by the stronger hryvnia, a drop in global energy prices, administrative factors, and easing pressures from the supply of raw food products. At the same time, rapidly rising consumer demand and wages continued to put pressure on prices.

Core Inflation

Core inflation slowed to 3.9% yoy (down from 4.8% yoy in November). Apart from the appreciation of the hryvnia against the currencies of partner countries (the nominal effective exchange rate strengthened by almost 18% yoy according to preliminary estimates), the core inflation slowdown was also driven by an improvement in inflation expectations. Among core inflation components, nonfood prices declined faster (2.2% yoy versus 1.3% in November). Nonfoods are largely imported products or products with a large share of imported inputs. In particular, the fall in prices of cars, clothing and footwear, home appliances, and electronic devices deepened in annual terms (to 8%–12% for some categories of goods). The growth in prices for furniture, personal care goods, household chemicals, and pharmaceuticals continued to slow (to 2%–3%).

The growth in processed food prices continued to slow, to 5.3% yoy (compared with 6.1% yoy in November). Many processed foods are also heavily import-dependent. A good harvest of grain and oil crops was another factor. That resulted in a slower growth in prices for pasta, bread, fish and seafood, tea, and juice. Rice and vegetable oils became cheaper. Price growth also slowed for meat and dairy products, in part due to pressures from imports of these products.

The growth in services prices also slowed (11.6% yoy), albeit less than expected by the NBU. This reflected sustained growth in consumer demand and higher costs, particularly wages. Prices grew rapidly for education, mobile communications, hairdressing, and hotel services, and for healthcare. Prices of financial and notary services and cable TV rose even faster. At the same time, the strengthening of the hryvnia also impacted prices of some services – primarily those with a large share of imported inputs (services from cinemas, internet providers, and dentists) or prices that highly correlate with the exchange rate (housing rentals and travel services). Coupled with the weaker pressure from food prices, the exchange rate factor contributed to slower growth

in prices for services provided by restaurants and cafes.

Change in Raw Food Prices

The growth rates of raw food prices decreased markedly, to 3.9% yoy (compared to 7.0% yoy in November). Vegetable prices contributed the most to slower inflation in raw food prices with the prices of vegetables down by 0.8% yoy (following growth of 14.5% yoy in October). The unfavorable supply factors persisting since late 2018 continued to wear off. In particular, the good harvest of most vegetables and a warm December resulted in a further decline in prices of cabbage, carrots, onions, tomatoes, eggplants, bell peppers, and beetroot. Potato prices also grew more slowly (67.8% yoy, down from 108% yoy in November). The growth in meat prices slowed, to 1.3% yoy, which was primarily due to a decline in prices of chicken (down by 1.2% yoy) as output exceeded demand. The growth in prices for flour and cereals decelerated rapidly, on the back of a large harvest of grain crops. Buckwheat and apples remained the exception, with a poorer harvest further spurring growth in their prices.

Change in Administered Prices

The growth in administered prices slowed to 8.6% yoy. The fall in natural gas prices for households deepened in December (28.7% yoy). As expected, prices for heating and hot water supply grew at a slower pace. Price growth decelerated moderately for other public utility services, as well as for alcoholic drinks (5.2% yoy) and tobacco products (21.7% yoy).

Change in Fuel Prices

Fuel prices declined more slowly (8.2% yoy). The decline in fuel prices was driven by global crude oil prices remaining below last year's levels (the NBU estimates that global oil prices pass through to local fuel prices with a time lag of one month) and by the stronger exchange rate.

Producer Price Inflation

Producer prices continued to decline in December (7.4% yoy). The Producer Price Index (PPI) went down month-on-month by 3.6%. The decline in prices was primarily

due to lower global prices for Ukrainian exports, which was exacerbated by the hryvnia appreciation.

Global steel prices, which remained below last year's levels, contributed to the drop in prices of metal products (down by 18.8% yoy). Weak demand from Ukrainian metallurgical companies outweighed the effects of higher global prices of iron ore. As a result, prices for Ukrainian ore fell by 21.4% yoy.

Prices in other manufacturing sectors increased more slowly as well. In particular, price growth slowed in the manufacture of textiles, and in rubber and plastic products. In the machinery and timber industries, prices were lower than a year ago. This was in part due to lower input prices, which was driven by the stronger hryvnia, among other things.

The growth in electricity prices slowed as prices declined in the day-ahead market and the intraday market by 9.0% mom (down by 24.8% since July 2019), which can be attributed to heightened competition and excess capacity built up due to

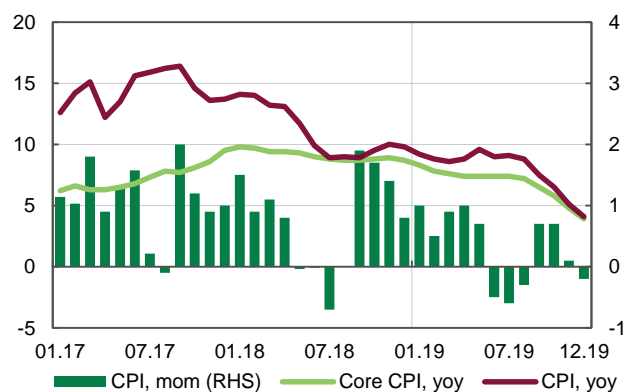
the warm weather. Although Naftogaz of Ukraine NJSC left natural gas prices for industrial producers unchanged in December, they remained at almost half the levels of a year ago on the back of a decline in global gas prices. As a result, prices for the supply of electricity, gas, steam, and air conditioning decreased by 5.6% yoy.

The decline in natural gas prices contributed to a price drop in the production of crude oil and natural gas (32.3% yoy). Together with the lower global prices of fertilizers, this also impacted subsequent links of the production chain. In particular, price declines in the chemical industry accelerated. In contrast, a slight increase in oil prices held back price declines in the production of coke and petroleum products.

Price growth in the production of food, beverages, and tobacco products remained slow (1.8% yoy). In particular, the large harvest of grains restrained growth in bread prices. The growth in producer prices for dairy and meat products decelerated (to 8.8% yoy and 0.2% yoy, respectively).

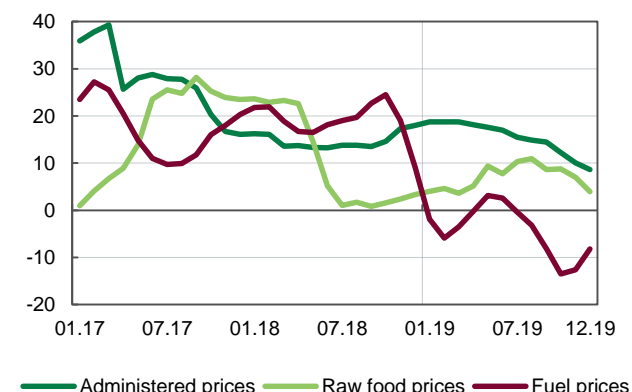
In December 2019, consumer inflation slowed, moving close to the lower bound of the 5% ± 1 pp target range. Inflationary pressures weakened across all major components of the CPI as the hryvnia strengthened, energy prices fell, and the supply of some foods increased.

Figure 1. Consumer price indices, %



Source: SSSU.

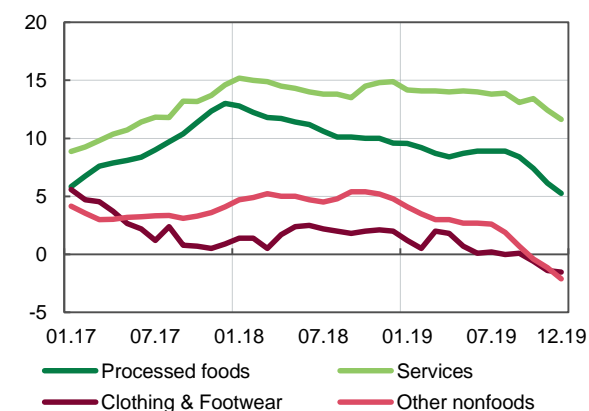
Figure 2. Main components of noncore CPI, % yoy



Source: SSSU, NBU staff estimates.

Underlying inflationary pressures eased, but sustained increases in consumer demand and wages continued to push up prices

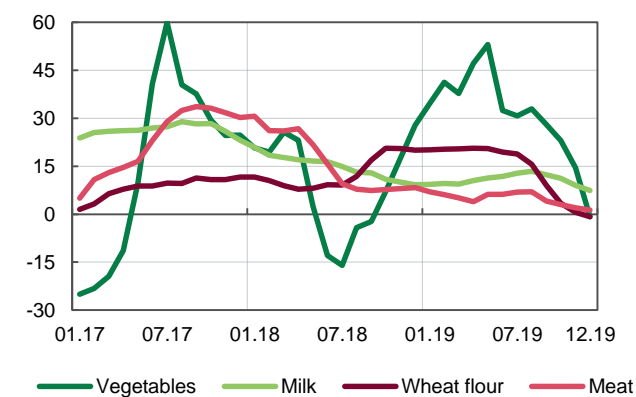
Figure 3. Main core CPI components, % yoy



Source: SSSU, NBU staff estimates.

Raw food prices grew more slowly due to the ample harvest of some vegetables and an increase in raw food imports...

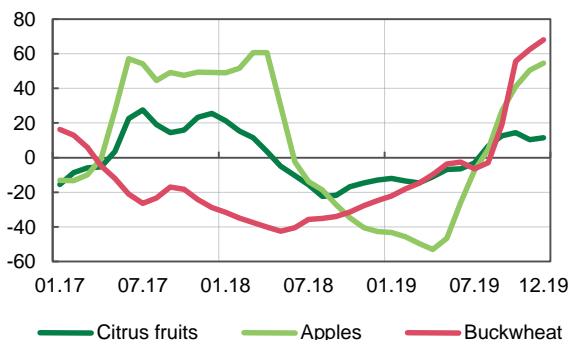
Figure 4. Prices for selected raw foods, % yoy



Source: SSSU.

...meanwhile, the poor harvest of some other crops in Ukraine and elsewhere in the world accelerated price increases

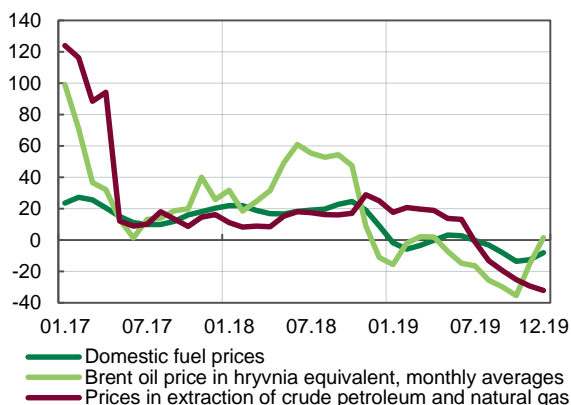
Figure 5. Prices for selected raw foods, % yoy



Source: SSSU.

Fuel prices were lower than a year ago thanks to the hryvnia strengthening, although their decline slowed, reflecting similar trends on global oil markets

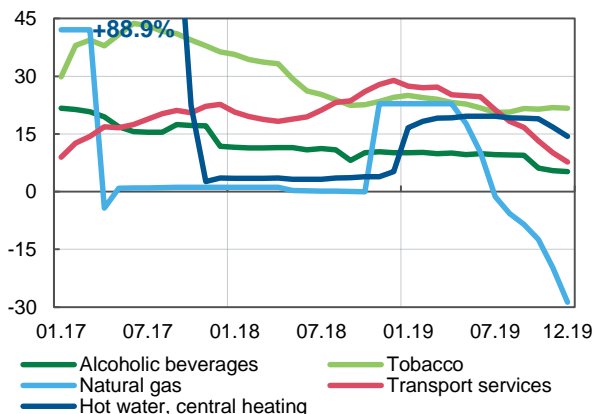
Figure 6. Fuel price indices, % yoy



Source: SSSU, Refinitiv.

Administered prices grew at a slower pace, owing to a sizeable drop in gas prices for households and, to a lesser extent, to a slowdown in price increases for other components

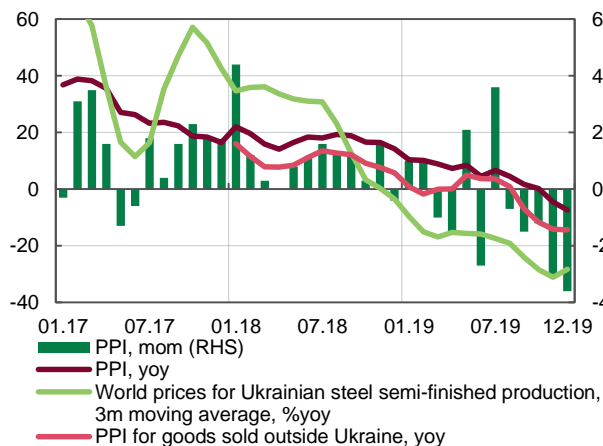
Figure 7. Administered prices, % yoy



Source: SSSU.

The PPI continued to decline in December, primarily driven by lower global prices for Ukrainian exports. The strengthening of the hryvnia was another factor...

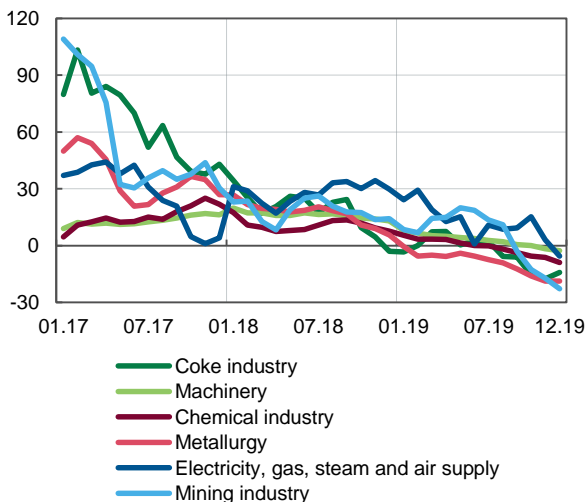
Figure 8. Producer Price Index, %



Source: SSSU.

... in reducing the input cost. This caused the prices in most sectors of mining and manufacturing to fall in annual terms

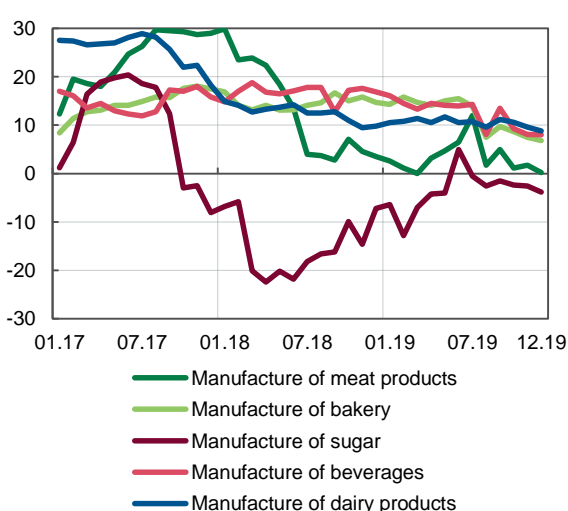
Figure 9. Producer price indices in selected industries, % yoy



Source: SSSU.

Price growth also decelerated in the majority of food industry sectors

Figure 10. Prices in the food industry subsectors, % yoy



Source: SSSU.

CPI and PPI Growth by Components in 2017–2019

	Share in CPI for 2019, %	2017		2018		% yoy			%mom December 2019
		2017	2018	2019					
				Oct	Nov	Dec			
CPI (NBU classification)									
Consumer Price Index	100.0	13.7	9.8	6.5	5.1	4.1	-0.2		
Core inflation	59.3	9.5	8.7	5.8	4.8	3.9	-0.3		
Non-core inflation*	40.7	19.4	10.7	8.0	6.2	4.8	-0.2		
Raw foods	20.0	23.5	3.3	8.8	7.0	3.9	-0.2		
Administered prices and tariffs	16.8	16.1	18.0	12.2	10.0	8.6	-0.1		
Fuels	3.9	20.0	9.1	-13.5	-12.6	-8.2	-1.2		

CPI (State Statistics Service of Ukraine classification)

Food and non-alcohol	45.4	17.7	7.8	8.2	6.6	4.8	0.0
Alcohol, tobacco	8.3	20.7	17.9	13.6	13.2	13.0	0.8
Clothing and footwear	5.3	0.9	2.0	-0.6	-1.4	-2.3	-3.4
Housing, water, electricity, gas and other fuels incl.	4.9	10.6	10.6	4.3	1.1	-1.9	-2.3
Dwelling maintenance	0.2	47.5	23.7	8.1	7.2	6.9	0.3
Water supply	0.1	20.2	19.9	14.7	13.0	12.7	0.3
Hot water	0.2	0.9	3.2	14.8	13.2	12.3	0.0
Natural gas	1.2	1.2	22.9	-12.5	-19.7	-28.7	-11.2
Central heating	0.8	3.8	5.2	19.4	17.2	14.6	0.0
Electricity	0.9	28.1	0.0	0.0	0.0	0.0	0.0
Transport	11.4	16.7	12.9	-2.4	-3.1	-2.3	-0.8
Communication	3.1	9.1	15.1	15.5	13.4	11.8	-0.3
Education	1.3	14.9	13.4	13.7	13.6	13.5	0.0

PPI

	Share in PPI for 2019, %**	2017		2018		% yoy			%mom December 2019
		2017	2018	2019					
				Oct	Nov	Dec			
Producer Price Index	100.0	16.5	14.2	0.2	-4.5	-7.4	-3.6		
Mining and quarrying	15.2	30.4	14.3	-12.7	-17.2	-22.8	-3.8		
Manufacturing of coal	2.9	47.8	5.4	-12.5	-21.7	-23.6	-2.3		
Extraction of crude petroleum and natural gas	5.3	16.1	24.9	-25.2	-29.3	-32.3	-4.6		
Mining of metal ores	5.8	29.3	8.2	-7.2	-11.1	-21.4	-4.4		
Manufacturing	65.3	18.5	7.4	-4.6	-6.0	-5.7	-0.8		
Manufacture of foods, beverages and tobacco products	20.2	12.5	7.0	1.2	0.7	1.8	0.6		
Manufacture of coke, and refined petroleum products	3.9	43.0	-3.1	-15.4	-17.5	-14.2	-1.1		
Manufacture of chemicals and chemical products	2.7	21.9	7.7	-5.5	-6.2	-8.9	-1.0		
Manufacture of basic pharmaceutical products and pharmaceutical preparation	1.4	11.0	16.7	11.9	11.3	9.6	1.6		
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.2	12.5	12.6	4.4	3.1	2.6	-0.3		
Manufacture of basic metals and fabricated metal products, except machinery and equipment	18.5	26.9	5.6	-16.0	-18.8	-18.8	-2.6		
Manufacture of transport equipment	2.9	17.9	17.3	3.8	2.8	1.1	-1.4		
Electricity, gas, steam and air-conditioning supply	18.5	4.0	29.8	15.3	3.0	-5.6	-9.2		

* 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 due to 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 2018.

Terms and abbreviations:

CPI	Consumer Price Index	NEER	nominal effective exchange rate
PPI	Producer Price Index	mom RHS	month-on-month right-hand scale
SSSU	State Statistics Service of Ukraine	yoy	year-on-year
NBU	National Bank of Ukraine		