



In March 2020, consumer inflation declined in annual terms to 2.3%, down from 2.4% in February. In monthly terms, prices grew by 0.8%. As expected, consumer inflation was below the 5% ± 1 pp target range. However, inflation has continued to decline faster than predicted by the projected trajectory published in the January 2020 Inflation Report. Price growth was held back by several factors. First, energy prices in the global markets fell significantly. Second, markets have priced in the effects of last year's strengthening of the hryvnia. Third, the supply of raw foods has increased, including due to warm weather. These factors outweighed the price impacts of the hryvnia's weakening in March and speculative demand for some goods amid quarantine restrictions.

### Core Inflation

Core inflation was little changed, at 3.1% yoy, up from 3.0% yoy in February. Yet prices for various components of the CPI moved in different directions. The hryvnia was, on average, 1.7% stronger against the dollar in March 2020 than a year earlier. This continued to affect products with a large share of imported inputs. The fall in nonfood prices slowed to 1.9% yoy, however. Prices for clothing and footwear, electronic devices, home appliances, and cars fell at a slower pace in March due to the weaker hryvnia. The hryvnia's weakening, coupled with stronger demand, spurred growth in prices for medical supplies, soap, and toilet paper.

The growth in prices of processed foods slowed to 3.9% yoy. The high grain harvest slowed the growth in bread and flour prices. Price growth also decelerated for dairy products, weighed down by an increase in the supply of imports. Rice and olive oil prices were lower than a year ago, continuing to reflect the effect of the hryvnia's strengthening last year.

The growth in the prices of services decelerated (to 9.9% yoy), primarily due to the quarantine measures imposed in mid-March. Demand for most services was dampened by transportation restrictions, social distancing, and expectations that incomes would fall. As a result, prices for catering, recreation, sports, and personal care were nearly flat for the month, while price growth for these services decelerated in annual terms. In contrast, prices for health insurance services grew faster, driven by the spread of the coronavirus, and the weaker hryvnia.

### Changes in Raw Food Prices

Raw food prices extended their fall, declining by 1.1% yoy. On the one hand, some of the goods in this group increased in price as households took to panic buying amid a contraction in the supply of some goods, which occurred after the authorities imposed quarantine restrictions. In a surge of growth that exemplifies this tendency, buckwheat prices in March soared (by 75.7% yoy), as did garlic prices (up 74.9% yoy) and lemon prices (up 45.2% yoy). On top of

that, prices for beef and pork also increased more rapidly. Apple prices joined the uptrend, but their growth (by 58.1% yoy) was driven only by low supply. On the other hand, prices for vegetables, including those used in the cooking of borscht, continued to be below last year's levels despite edging higher during the month. A decline in feed prices and growth in domestic production resulted in eggs continuing to fall in price. The same factors, amplified by an import ban the EU imposed until 7 March 2020 out of an abundance of caution over bird flu fears, drove chicken meat prices lower.

### Changes in Administered Prices

The growth in administered prices decelerated (to 5.5% yoy). Natural gas prices for households, which plunged (by 39.2% yoy) after the drop in global and domestic natural gas prices was factored into the new tariffs, were the strongest contributor to the slowdown in the growth of administered prices. Cheaper natural gas was also instrumental in reducing the cost of heating and hot water supplies. Prices for alcoholic beverages rose more modestly. Fueled by higher production costs, including wages and input prices, prices for the water supply and sewage services increased more quickly, while tariffs for phone local calls went up.

### Changes in Fuel Prices

Fuel prices continued to fall (shedding 7.7% yoy) as global oil prices tumbled in recent months.

### Producer Price Inflation

The fall in prices for industrial products decelerated in March (to 4.2% yoy), with the PPI ending the month 1.8% higher, primarily fueled by an increase in electricity prices. More specifically, the expansion of alternative energy capacity amid relatively warm, bright weather led to a surge in power generation from renewable energy sources (whose share in March 2020 reached 5.9%, up from a mere 2.3% in the same period of 2019). This triggered price growth (of 10.1% mom) in the day-ahead market and the intraday market in March 2020. Held back by competition and surplus capacity, however, electricity prices continued to be 15.5% lower than in July 2019, when the new market for

electricity went into operation.

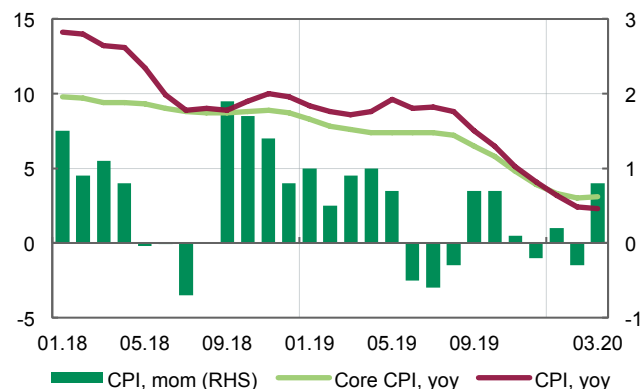
The decline in prices in metallurgy slowed (to 11.6% yoy) primarily due to external prices (which fell by 10.8% yoy). Prices in the manufacture of textiles, motor vehicles, and food products rose slightly faster (by 4.2% yoy). Driven by an increase in export prices for Ukrainian vegetable oil, growth in prices in the manufacture of vegetable oil, in particular, made a greater contribution to inflation in the food industry. Growth in producer prices for sugar and meat products accelerated somewhat (to 3.4% yoy and 1.9% yoy, respectively), in part due to last year's comparison base and robust domestic demand as quarantine measures went into effect and – in the case of the manufacture of meat products – due to more costly inputs and logistical hurdles. At the same time, higher imports and a drop in exports resulted in

price growth in the manufacture of dairy products decelerating modestly (to 7.2% yoy). Thanks to the high grain harvest, price growth in the manufacture of bread was nearly unchanged (4.7% yoy).

Driven by a further decline in global prices for natural gas and oil and by warm weather, the fall in prices in the extraction of hydrocarbons deepened (to 33.3% yoy). In particular, natural gas prices for industry remained at almost half the level of a year ago, while prices in the mining of coal were 34.5% yoy lower than last year. All of this also affected adjacent links in the production process. Specifically, price decreases in the chemical industry deepened (to 4.7% yoy), as did price declines in the manufacture of coke and petroleum products (to 20.5% yoy).

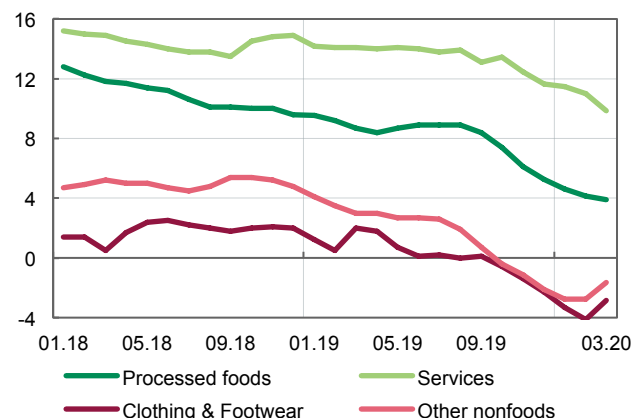
**In March 2020, consumer inflation decelerated to 2.3% yoy, and stood below the 5% ± 1 pp target range. This was driven by the continued effects of the hryvnia's strengthening last year, lower global energy prices, and a greater supply of raw food products. These factors outweighed the impact of the hryvnia's weakening in March and speculative demand for some goods amid quarantine restrictions**

Figure 1. Consumer price indices, %



Source: SSSU.

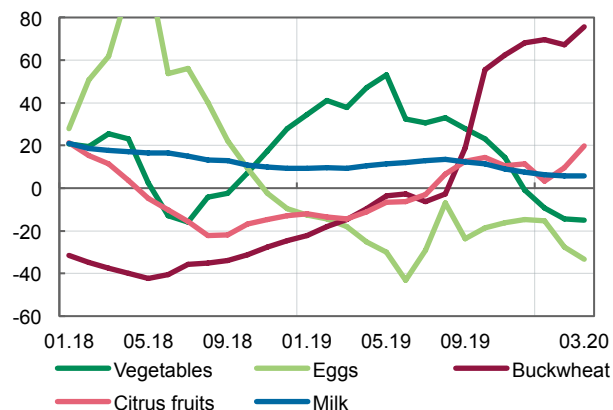
Figure 2. Main core CPI components, % yoy



Source: SSSU, NBU staff estimates.

**The rise in prices for certain foodstuffs as demand surged was offset by slower growth in prices for other food products, for which supply expanded**

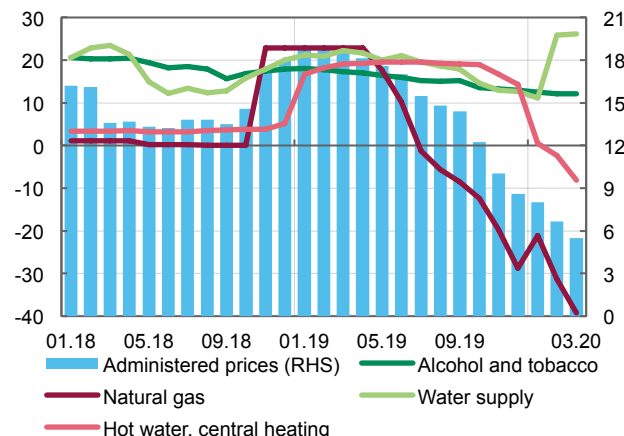
Figure 3. Prices for selected raw foods, % yoy



Source: SSSU.

**The rise in administered prices decelerated, primarily due to a deeper fall in natural gas prices, which also affected prices for the hot water supplies and heating**

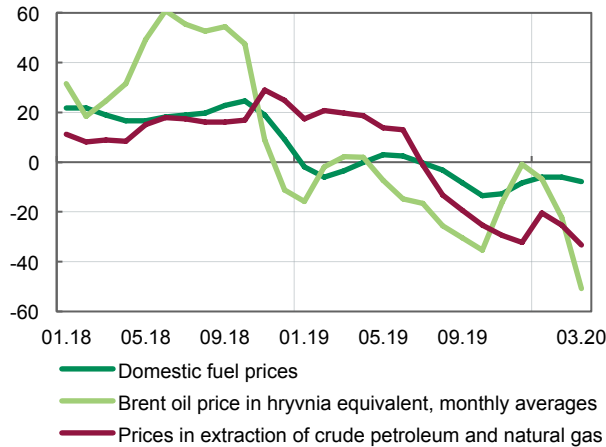
Figure 4. Administered prices, % yoy



Source: SSSU, NBU staff estimates.

**Fuel prices extended their fall as global oil prices plunged in recent months**

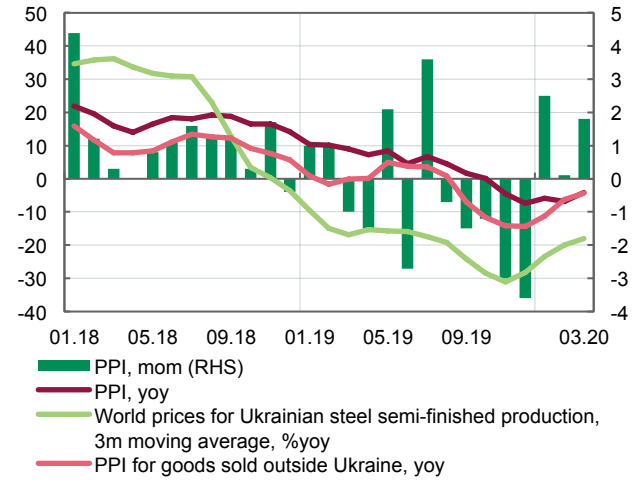
Figure 5. Fuel price indices, % yoy



Source: SSSU, Refinitiv Datastream.

**The decline in producer prices in March 2020 slowed as pressure eased from prices for exported goods...**

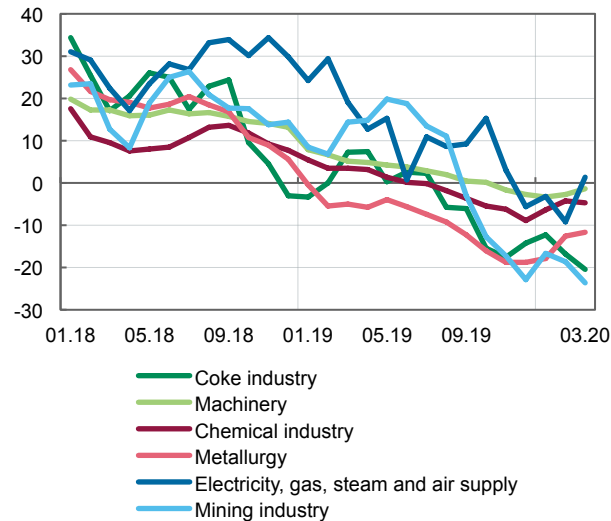
Figure 6. Producer price index, %



Source: SSSU.

**...and from electricity prices. The plunge in hydrocarbon prices, in contrast, held back producer price inflation**

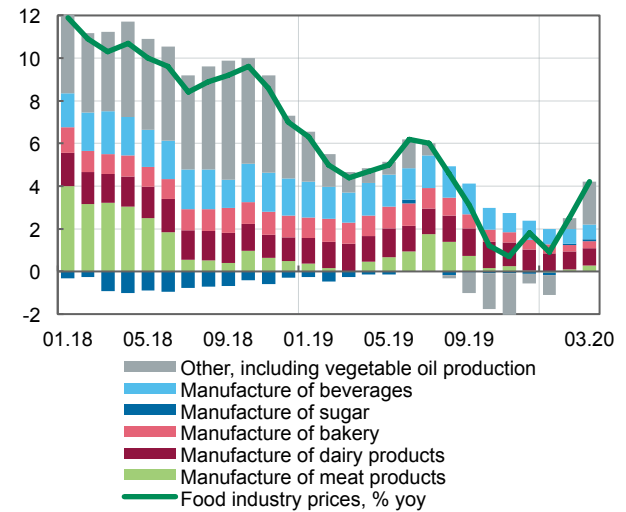
Figure 7. Producer price indices in selected industries, % yoy



Source: SSSU.

**Food price growth accelerated due to higher export prices for oilseeds, pressure from domestic demand, and logistical challenges**

Figure 8. Main components of annual changes in prices in the manufacture of food, beverages and tobacco, pp



Source: SSSU, NBU staff estimates.

## CPI and PPI Growth by Components in 2018–2020

	Share in CPI for 2020, %	% yoy					%mom March 2020
		2018	2019	2020			
				Jan	Feb	Mar	
<b>CPI (NBU classification)</b>							
<b>Consumer Price Index</b>	<b>100.0</b>	<b>9.8</b>	<b>4.1</b>	<b>3.2</b>	<b>2.4</b>	<b>2.3</b>	<b>0.8</b>
<b>Core inflation</b>	<b>59.4</b>	<b>8.7</b>	<b>3.9</b>	<b>3.3</b>	<b>3.0</b>	<b>3.1</b>	<b>1.3</b>
<b>Non-core inflation*</b>	<b>40.6</b>	<b>10.7</b>	<b>4.8</b>	<b>3.2</b>	<b>1.9</b>	<b>1.5</b>	<b>0.1</b>
Raw foods	19.4	3.3	3.9	1.1	-1.3	-1.0	0.6
Administered prices and tariffs	18.0	18.0	8.6	8.0	6.7	5.5	-0.1
Fuels	3.2	9.1	-8.2	-6.1	6.1	-7.7	-1.7

<b>CPI (State Statistics Service of Ukraine classification)</b>							
<b>Food and non-alcohol</b>	<b>44.7</b>	<b>17.7</b>	<b>7.8</b>	<b>4.8</b>	<b>3.1</b>	<b>1.8</b>	<b>0.4</b>
<b>Alcohol, tobacco</b>	<b>8.1</b>	<b>20.7</b>	<b>17.9</b>	<b>13.0</b>	<b>12.6</b>	<b>12.1</b>	<b>0.9</b>
<b>Clothing and footwear</b>	<b>5.3</b>	<b>0.9</b>	<b>2.0</b>	<b>-2.3</b>	<b>-3.3</b>	<b>-2.8</b>	<b>12.8</b>
<b>Housing, water, electricity, gas and other fuels incl.</b>	<b>5.4</b>	<b>10.6</b>	<b>10.6</b>	<b>-1.9</b>	<b>-2.8</b>	<b>-8.1</b>	<b>-2.8</b>
Dwelling maintenance	0.3	47.5	23.7	6.9	6.6	3.4	0.3
Water supply	0.2	20.2	19.9	12.7	11.1	26.2	2.2
Hot water	0.2	0.9	3.2	12.3	2.6	-5.0	-2.5
Natural gas	1.4	1.2	22.9	-28.7	-21.1	-39.2	-11.6
Central heating	1.0	3.8	5.2	14.6	0.3	-8.4	-5.4
Electricity	1.0	28.1	0.0	0.0	0.0	0.0	0.0
<b>Transport</b>	<b>11.2</b>	<b>16.7</b>	<b>12.9</b>	<b>-2.3</b>	<b>-1.4</b>	<b>-1.0</b>	<b>0.7</b>
<b>Communication</b>	<b>2.9</b>	<b>9.1</b>	<b>15.1</b>	<b>11.8</b>	<b>9.9</b>	<b>6.9</b>	<b>0.6</b>
<b>Education</b>	<b>1.4</b>	<b>14.9</b>	<b>13.4</b>	<b>13.5</b>	<b>13.5</b>	<b>13.5</b>	<b>0.2</b>

<b>PPI</b>							
	Share in PPI for 2020, %**	% yoy					%mom March 2020
		2018	2019	2020			
				Jan	Feb	Mar	
<b>Producer Price Index</b>	<b>100.0</b>	<b>14.2</b>	<b>-7.4</b>	<b>-5.9</b>	<b>-6.8</b>	<b>-4.2</b>	<b>1.8</b>
<b>Mining and quarrying</b>	<b>15.9</b>	<b>14.3</b>	<b>-22.8</b>	<b>-16.6</b>	<b>-18.6</b>	<b>-23.7</b>	<b>-4.5</b>
Manufacturing of coal	3.3	5.4	-23.6	-31.5	-34.1	-34.5	-0.9
Extraction of crude petroleum and natural gas	4.8	24.9	-32.3	-20.5	-25.4	-33.3	-12.2
Mining of metal ores	6.3	8.2	-21.4	-11.8	-11.3	-17.5	-1.2
<b>Manufacturing</b>	<b>64.4</b>	<b>7.4</b>	<b>-5.7</b>	<b>-5.5</b>	<b>-3.8</b>	<b>-3.0</b>	<b>1.2</b>
Manufacture of foods, beverages and tobacco products	21.4	7.0	1.8	0.9	2.5	4.2	1.6
Manufacture of coke, and refined petroleum products	2.9	-3.1	-14.2	-12.2	-16.8	-20.5	-1.4
Manufacture of chemicals and chemical products	2.9	7.7	-8.9	-6.3	-4.2	-4.7	0.1
Manufacture of basic pharmaceutical products and pharmaceutical preparation	1.5	16.7	9.6	10.0	9.7	9.1	0.5
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.7	12.6	2.6	1.3	1.0	1.6	1.3
Manufacture of basic metals and fabricated metal products, except machinery and equipment	15.9	5.6	-18.8	-17.9	-12.6	-11.6	1.9
Manufacture of transport equipment	3.2	17.3	1.1	1.2	2.7	4.6	1.4
<b>Electricity, gas, steam and air-conditioning supply</b>	<b>18.5</b>	<b>29.8</b>	<b>-5.6</b>	<b>-3.2</b>	<b>-9.2</b>	<b>1.4</b>	<b>5.9</b>

\* 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 2019.

**Terms and abbreviations:**

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