

In August 2020 annual consumer inflation was 2.5% (up from 2.4% in July). In monthly terms prices fell by 0.2%. Consumer inflation was below the 5% ± 1 pp target range and remained lower than had been forecast in the July 2020 Inflation Report. The rise in energy prices and the pass-through effects of a weaker hryvnia were largely offset by a slowdown in food price growth, in particular due to a good vegetable harvest and an increase in the supply of certain imported goods.

### Core Inflation

As expected, core inflation accelerated to 3.2% yoy.

Non-food prices declined more slowly (by 0.2% yoy). This was due to both the weakening of the hryvnia in previous months and the release of pent-up demand from consumers. Thus, prices for household appliances and electronic devices fell at a slower pace. The growth in prices for cars, medicines, and other medical goods accelerated. Rising gold prices led to a sharp acceleration in the growth of jewelry prices. In contrast, the fall in prices for other nonstaple goods – clothing and footwear, tableware, and home textiles – deepened. This can be explained by the relatively lesser influence of the exchange rate factor on those prices, thanks to previously accumulated inventories and advance purchases.

Processed food prices continued to rise more slowly (by 3.3% yoy). In particular, most dairy and bakery products, fish products, and nonalcoholic beverages became more expensive at a slower pace. This is due to both an increase in supply, including through imports, and sluggish demand for more expensive and nonstaple goods.

The growth in prices for services remained high (up to 8.2% yoy). The rate of decline in prices for tourist services fell sharply due to the release of pent-up demand. Prices for telecommunications services grew rapidly. Against the backdrop of reviving demand from households and increasing spending by businesses, including on sanitation, the growth in prices for services related to personal care continued to speed up. Meanwhile, weak demand and the tightening of quarantine restrictions in some regions held back price increases for cinema tickets, catering services, and foreign language lessons. Prices for healthcare services increased more slowly.

### Changes in Raw Food Prices

The growth in raw food prices decelerated significantly (to 0.9% yoy), driven by the arrival of the new harvest, as well as an increase in imports of certain goods in recent months. Specifically, potatoes, beets, cabbage, bananas, and lemons were cheaper than last year. The increases in prices for zucchini, cucumbers, garlic, apples, and milk slowed. The fall in pork prices also deepened as demand waned and supply expanded. In addition, eggs fell in price again, probably due

to weaker external demand.

In contrast, tomato prices returned to growth, as root vegetables were in short supply. Watermelons also were more expensive than a year ago because of longer ripening times.

### Changes in Administered Prices

The growth in administered prices accelerated by more than expected, to 5.2% yoy. More specifically, natural gas prices for households remained lower than last year, but rose in August as global energy prices trended upwards.

Prices for other components of administered inflation (alcoholic beverages, tobacco products, hot water and heating) moved at almost the same rates as in the previous month.

### Changes in Fuel Prices

The fall in fuel prices continued to decelerate (to 17.9% yoy), also reflecting the recovery in global oil prices in recent months and strong demand for fuel as individuals chose driving over other types of transport in pandemic conditions.

### Producer Price Inflation

The fall in producer prices decelerated in August (to 4.7% yoy from 7.5% yoy in July). The Producer Price Index (PPI) increased during the month by 2.3%.

The recovery in global energy prices in recent months slowed the price declines in the production of crude oil and natural gas (to 40.5% yoy). This, together with higher global fertilizer prices and stronger external demand, resulted in an acceleration of price growth in the chemicals industry (to 4.9% yoy).

The fall in prices in the supply of electricity, gas, steam, and air conditioning slowed somewhat (to 9.4% yoy). Specifically, higher natural gas prices offset the price declines in electricity generation driven by the [lower tariff for alternative energy producers](#).

As global steel prices gradually recovered and the hryvnia weakened in recent months, the fall in prices in metallurgy decelerated sharply (to 4.4% yoy). Thanks to similar trends in the global iron ore market, prices for metal ores that are sold outside Ukraine fell at a slower pace (9.7% yoy). In contrast,

weak demand from domestic metallurgical companies kept metal ore prices in Ukraine from returning to growth.

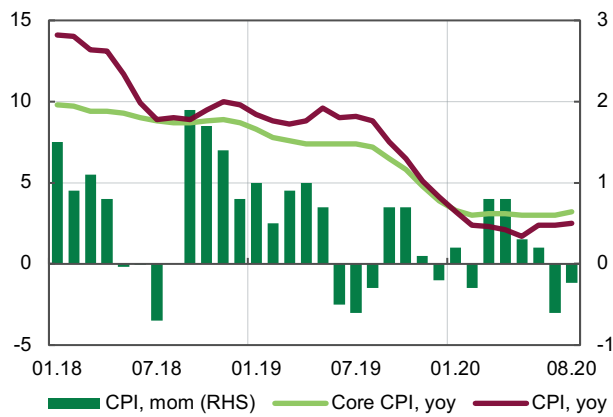
Prices grew at a slightly higher pace in the manufacture of textiles and pharmaceuticals, in the woodworking and printing industries, and in the production of rubber and plastic products.

Price growth in the food industry also accelerated (to 9.2% yoy). The rate of decline in prices in the manufacture of meat

products decelerated considerably (to 0.6% yoy), probably due to higher prices for imported raw materials. Price growth in sugar production accelerated against the backdrop of higher global prices and stronger external demand (in August, Ukraine ramped up sugar deliveries to Turkey, Uzbekistan, Georgia, and Palestine). In addition, prices in the manufacture of other food products – dairy products, bakery products, vegetable oil, and animal fats – increased.

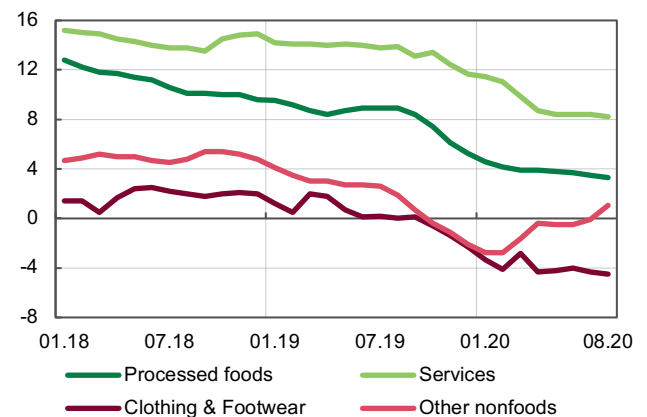
**Consumer inflation in August 2020 sped up slightly in annual terms, but was below the 5% ± 1 pp target range. The rise in energy prices and the effects of a weaker hryvnia were largely offset by a slowdown in food price growth, in particular due to an increase in supply. Core inflation also edged higher compared to July, primarily due to the resumption of the growth in prices of other non-food products**

Figure 1. Consumer price indices, %



Source: SSSU.

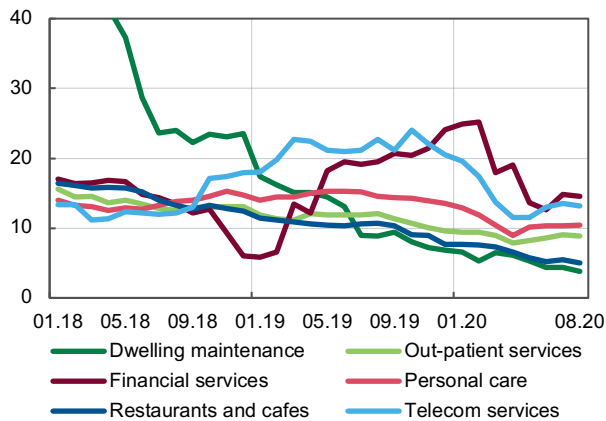
Figure 2. Main components of core CPI, % yoy



Source: SSSU, NBU staff estimates.

**The growth in prices for services remained high. The impact on prices from rising production costs was offset by weak demand and stricter quarantine restrictions in some regions**

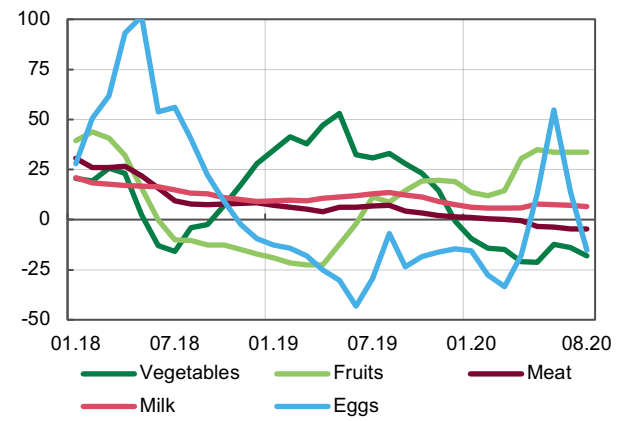
Figure 3. Prices for selected services, % yoy



Source: SSSU, NBU staff estimates.

**The growth in raw food prices decelerated, thanks to the new harvest and a rise in imports in recent months**

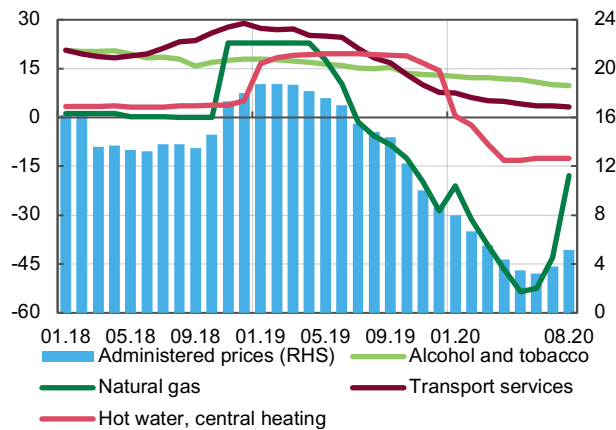
Figure 4. Prices for selected raw foods, % yoy



Source: SSSU.

The increase in administered prices accelerated as natural gas prices rose amid an uptrend in global energy prices

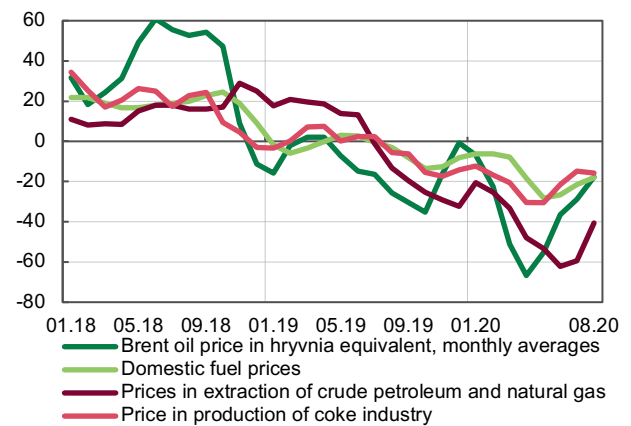
Figure 5. Administered prices, % yoy



Source: SSSU, NBU staff estimates.

The decline in fuel prices continued to slow, reflecting the recovery in global crude oil prices in recent months and strong demand from motor vehicle owners

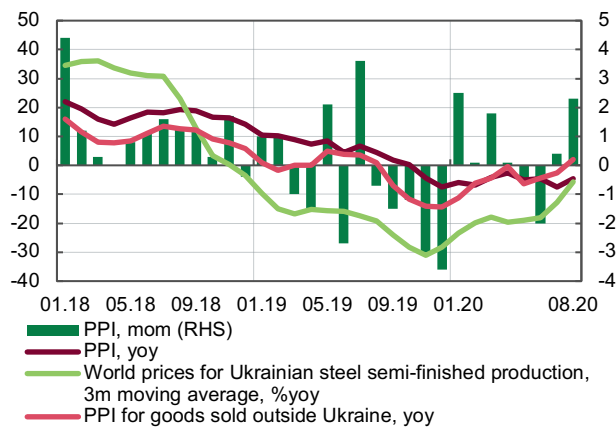
Figure 6. Fuel price indices, % yoy



Source: SSSU, Refinitiv Datastream, NBU staff estimates.

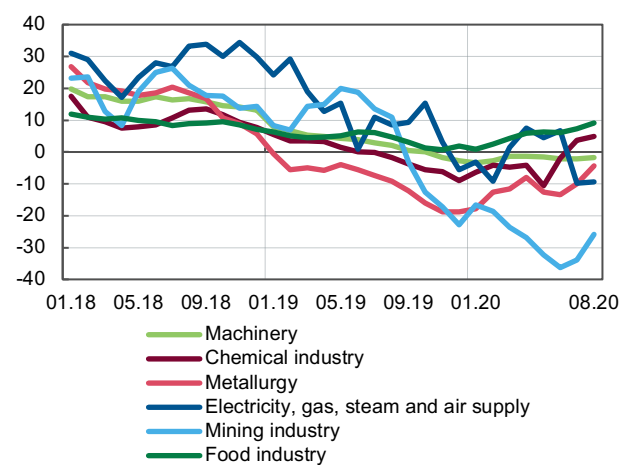
Producer prices fell more slowly in August. Underlying price pressures increased in all sectors, primarily driven by rising global prices for energy, steel, fertilizers, and sugar. Another important factor was the increase in external demand for some Ukrainian-made goods, such as sugar and chemical products

Figure 7. Producer price index, %



Source: SSSU.

Figure 8. Producer price indices in selected industries, % yoy



Source: SSSU.

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

	Share in CPI for 2020, %			% yoy			% mom Aug 2020
		2018	2019	2020			
				Jun	Jul	Aug	
<b>CPI (NBU classification)</b>							
<b>Consumer Price Index</b>	<b>100.0</b>	<b>9.8</b>	<b>4.1</b>	<b>2.4</b>	<b>2.4</b>	<b>2.5</b>	<b>-0.2</b>
<b>Core inflation</b>	<b>59.4</b>	<b>8.7</b>	<b>3.9</b>	<b>3.0</b>	<b>3.0</b>	<b>3.2</b>	<b>0.1</b>
<b>Non-core inflation*</b>	<b>40.6</b>	<b>10.7</b>	<b>4.8</b>	<b>1.8</b>	<b>1.7</b>	<b>1.6</b>	<b>-0.7</b>
Raw foods	19.4	3.3	3.9	5.0	3.3	0.9	-3.6
Administered prices and tariffs	18.0	18.0	8.6	3.2	3.8	5.2	1.7
Fuels	3.2	9.1	-8.2	-26.5	-21.5	-17.9	2.8
<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>2.7</b>	<b>4.2</b>	<b>3.5</b>	<b>-1.4</b>
<b>Alcohol, tobacco</b>	<b>8.1</b>	<b>20.7</b>	<b>17.9</b>	<b>11.6</b>	<b>10.8</b>	<b>10.8</b>	<b>0.5</b>
<b>Clothing and footwear</b>	<b>5.3</b>	<b>0.9</b>	<b>2.0</b>	<b>-4.2</b>	<b>-4.0</b>	<b>-4.3</b>	<b>-4.8</b>
<b>Housing, water, electricity, gas and other fuels incl.</b>	<b>5.4</b>	<b>10.6</b>	<b>10.6</b>	<b>-13.1</b>	<b>-12.2</b>	<b>-9.1</b>	<b>1.2</b>
Dwelling maintenance	0.3	47.5	23.7	5.2	4.4	4.4	0.5
Water supply	0.2	20.2	19.9	25.1	23.6	23.6	0.0
Hot water	0.2	0.9	3.2	-7.6	-3.5	-3.6	-0.1
Natural gas	1.4	1.2	22.9	-53.5	-52.5	-43.0	7.5
Central heating	1.0	3.8	5.2	-13.7	-13.7	-13.7	0.0
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>-6.6</b>	<b>-5.8</b>	<b>-3.6</b>	<b>1.2</b>
<b>Communication</b>	<b>2.9</b>	<b>9.1</b>	<b>15.1</b>	<b>5.9</b>	<b>7.1</b>	<b>7.6</b>	<b>0.3</b>
<b>Education</b>	<b>1.4</b>	<b>14.9</b>	<b>13.4</b>	<b>13.5</b>	<b>13.3</b>	<b>13.2</b>	<b>0.1</b>

## PPI

	Share in PPI for 2020, %**			% yoy			% mom Aug 2020
		2018	2019	2020			
				Jun	Jul	Aug	
<b>Producer Price Index</b>	<b>100.0</b>	<b>14.2</b>	<b>-7.4</b>	<b>-4.6</b>	<b>-7.5</b>	<b>-4.7</b>	<b>2.3</b>
<b>Mining and quarrying</b>	<b>15.9</b>	<b>14.3</b>	<b>-22.8</b>	<b>-36.3</b>	<b>-34.0</b>	<b>-25.9</b>	<b>10.1</b>
Manufacturing of coal	3.3	5.4	-23.6	-34.8	-27.1	-31.1	-0.3
Extraction of crude petroleum and natural gas	4.8	24.9	-32.3	-62.2	-59.3	-40.5	28.9
Mining of metal ores	6.3	8.2	-21.4	-20.2	-21.8	-22.4	2.2
<b>Manufacturing</b>	<b>64.4</b>	<b>7.4</b>	<b>-5.7</b>	<b>-2.6</b>	<b>-0.5</b>	<b>1.7</b>	<b>1.9</b>
Manufacture of foods, beverages and tobacco products	21.4	7.0	1.8	6.1	7.3	9.2	1.8
Manufacture of coke, and refined petroleum products	2.9	-3.1	-14.2	-21.4	-14.9	-15.7	-1.6
Manufacture of chemicals and chemical products	2.9	7.7	-8.9	-1.9	3.7	4.9	0.3
Manufacture of basic pharmaceutical products and pharmaceutical preparation	1.5	16.7	9.6	8.9	9.3	9.8	0.9
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.7	12.6	2.6	0.4	0.6	1.3	0.6
Manufacture of basic metals and fabricated metal products, except machinery and equipment	15.9	5.6	-18.8	-13.4	-9.9	-4.4	5.1
Manufacture of transport equipment	3.2	17.3	1.1	1.1	0.3	-0.8	0.6
<b>Electricity, gas, steam and air-conditioning supply</b>	<b>18.5</b>	<b>29.8</b>	<b>-5.6</b>	<b>6.7</b>	<b>-9.8</b>	<b>-9.4</b>	<b>-0.4</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	mom	month-on-month
PPI	Producer price index	yoy	year-on-year
SSSU	State Statistics Service of Ukraine	RHS	Right-hand scale
NBU	National Bank of Ukraine		