

In December 2020, consumer inflation accelerated (to 5.0% yoy, up from 3.8% yoy in November), reaching the midpoint of the 5% ± 1 pp target range. The inflation target was met in December for the second year running. In monthly terms, the CPI increased by 0.9%. However, actual consumer inflation rose above the projected trajectory published in the NBU's [October 2020 Inflation Report](#). Inflationary pressures were generated by the faster-than-expected recovery in the global economy, a further strengthening of domestic consumer demand, and higher prices for energy and certain foods. At the same time, inflation continued to be restrained by weaker demand from households for certain services and nonfood products.

Core Inflation

Core inflation accelerated to 4.5% yoy in December.

Prices for processed foods increased by 5.2% over the year. Low sunflower yields and rising export prices drove sunflower oil prices higher in December. This also affected prices for mayonnaise, margarine, and spreads. Rising production costs of raw materials and energy (especially electricity and natural gas) led to higher prices for meat, certain dairy products, and flour products. Driven by more active consumption and a weakening of the hryvnia (in annual terms), prices for rice and fish products increased, while prices for dried fruits and chocolate returned to growth.

Nonfood prices were up by 1.6% for the year. In December, they rose primarily due to a weaker hryvnia and strong consumer demand. In particular, prices for household appliances, pharmaceuticals, and cars continued to grow. In addition, prices for electronic devices fell more slowly. Meantime, the fall in prices for clothing and footwear sped up (to 7.3% yoy). This may have been due to changes in the consumer behavior of households as they opted to study and [work and online](#), the pricing policy of retailers in the days leading up to tighter quarantine restrictions in January 2021, and cheaper global prices for fabrics amid a decline in demand.

Prices for services accelerated somewhat, increasing by 6.9% over the year. Prices for travel services, housing rents, and driving lessons increased amid rising demand and production costs. In addition, prices for funeral services grew faster, but this was due to colder weather in December of last year than in the previous year. The growth in prices for hotel services, beauty salon services, and cinema tickets slowed due to an increase in supply, as the weekend quarantine regime ended.

Changes in Raw Food Prices

Raw food prices increased by 4.1%. In particular, prices for eggs and milk in December rose faster, while prices for chicken meat fell more slowly due to reduced production and higher production costs, including the cost of feed. With sugar beet and grain yields being lower, and global sugar and wheat

prices rising, sugar and flour continued to increase in price. As supply shrank, the fall in prices for vegetables, especially those used in cooking borsch, also decelerated. In addition, the rise in fruit prices in December accelerated somewhat, driven primarily by higher prices for bananas and kiwis.

Changes in Administered Prices

Administered prices were up by 9.9% for the year. The growth in these prices continued to accelerate in December. Specifically, natural gas prices grew at a faster pace (56.3% yoy), as the effects of the previous year's comparison base faded (natural gas prices in December were down by 0.4% compared to November). The rises in natural gas prices occurring in previous periods slowed the decline in prices for hot water supplies and heating. During the year, the growth in tobacco prices also remained high, reflecting the increase in excise duties scheduled for the beginning of the year. At the same time, prices for alcoholic beverages were level with those of last year, as excise taxes and minimum retail prices for these products did not increase in 2020.

Changes in Fuel Prices

Fuel prices fell by 10.5% for the year. However, in December the fall in fuel prices continued to slow in annual terms. This was due to higher global oil prices and sustained robust demand from the public, who opted to use cars rather than public transport amid the pandemic¹.

Producer Price Inflation

In December, producer prices continued to grow rapidly (by 14.5% yoy). This was primarily driven by the growth in prices for products sold outside Ukraine (which accelerated to 36.1% yoy). The PPI increased by 1.8% over the month.

As prices in the global commodity markets continued to trend higher, prices in the ore mining industry rose sharply (by 44.6% yoy). Driven by higher prices for raw materials and rising global steel prices, the growth in prices for domestic metallurgy products accelerated (to 25.2% yoy).

With global oil and natural gas prices increasing sharply, the growth in prices in crude oil and natural gas production accelerated (to 28.6%). Further growth in natural gas prices,

¹The volume of fuel sales through gas stations increased by 15.9% yoy over the first 11 months of 2020.

sustained high global prices for fertilizers, and demand from India for Ukrainian urea spurred price growth in the chemicals industry (to 20.9% yoy).

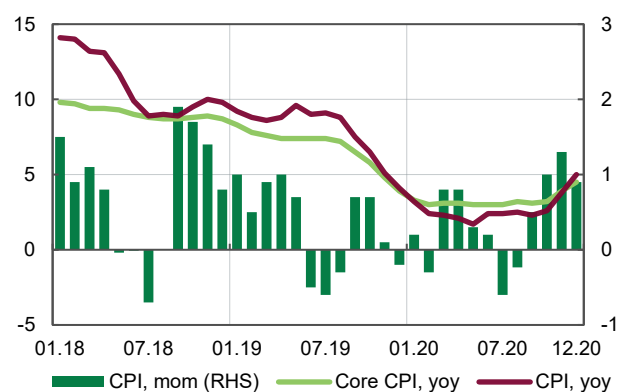
After five months of declines, prices in the supply of electricity, gas, steam, and air conditioning returned to growth (3.9% yoy). This was due to a further strengthening of demand for electricity from consumers other than households, and an increase in the [gas price](#) for industry.

Prices grew at a slightly higher pace in the manufacture of rubber and plastic products due to higher prices for the energy inputs used heavily to produce them. Price growth in the manufacture of electrical equipment also sped up (to 4.4% yoy), probably driven by the effects of the hryvnia's depreciation in annual terms.

Price growth in the food industry accelerated (to 21.6% yoy). The largest contribution to this acceleration came from price increases in the production of oils and fats. In particular, sunflower oil and meal continued to rise in price amid sustained growth in sunflower oil prices in the global commodity markets and a drop in Ukraine's sunflower harvest from last year's levels. Prices in the production of sugar surged due to the harvest and sugar content of sugar beet being lower than last year, and because of higher global prices amid lower supply from the world's largest sugar producers. Prices in the production of meat also increased as [feed prices grew](#).

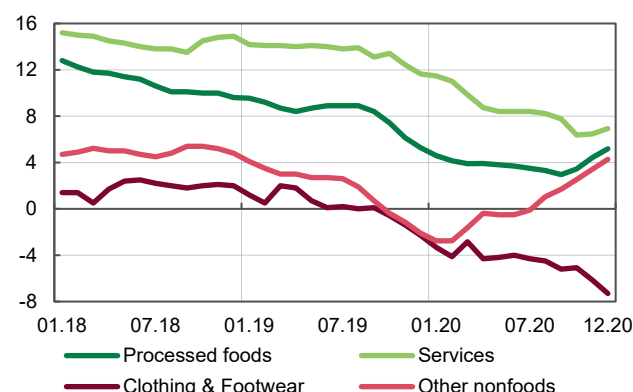
In December 2020, consumer inflation accelerated in annual terms, reaching the 5% ± 1 pp target range. Inflationary pressures were generated by the faster-than-expected recovery in the global economy, a further revival in consumption, and higher prices for energy and certain foods. Core inflation also accelerated.

Figure 1. Consumer price indices, %



Source: SSSU.

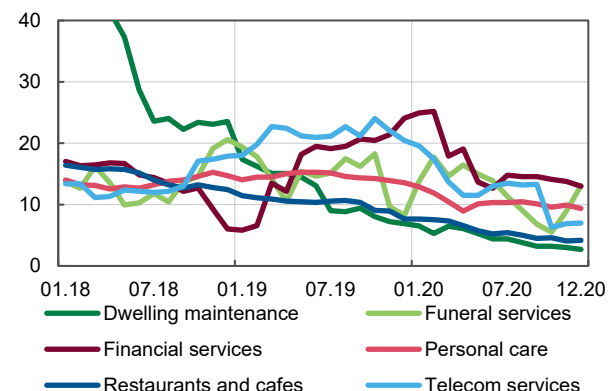
Figure 2. Main components of core CPI, % yoy



Source: SSSU, NBU staff estimates.

The increase in service prices accelerated somewhat, fueled by stronger demand, higher production costs, and poorer weather conditions

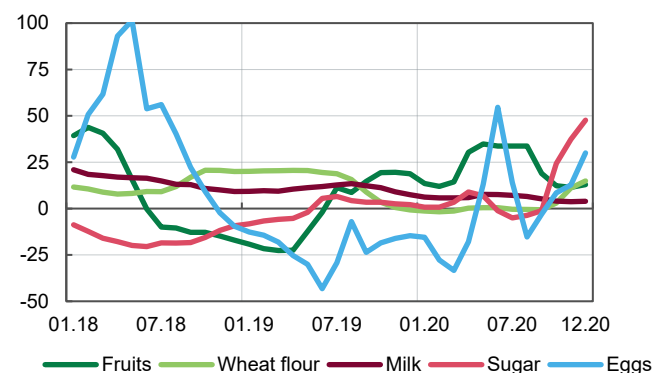
Figure 3. Prices for selected services, % yoy



Source: SSSU, NBU staff estimates.

Raw food prices continued to grow because of poorer yields of certain crops, rising production costs, and lower supply

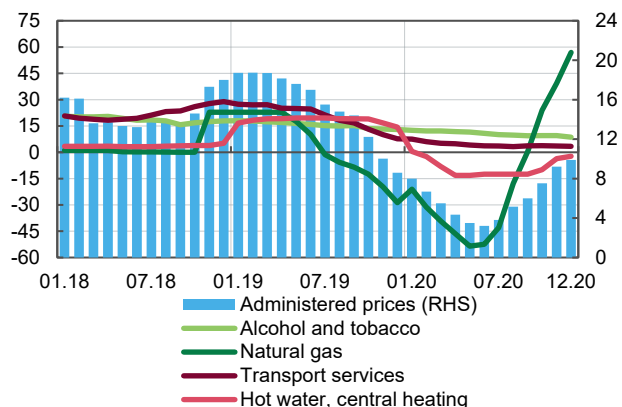
Figure 4. Prices for selected raw foods, % yoy



Source: SSSU.

Spurred by higher natural gas prices, the growth in administered prices accelerated further, making hot water and heating more expensive

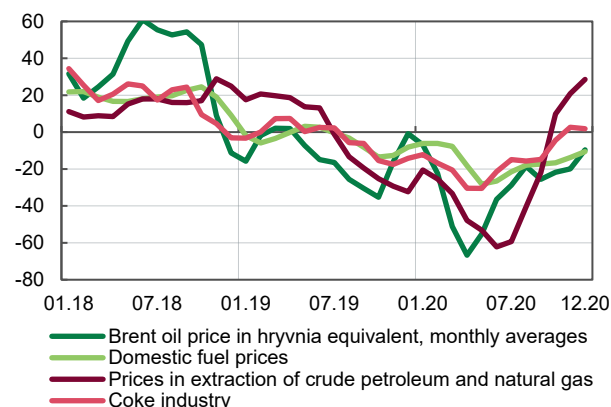
Figure 5. Administered prices, % yoy



Source: SSSU, NBU staff estimates.

The fall in fuel prices in December continued to slow in annual terms. This was due to higher global oil prices and sustained robust demand from households

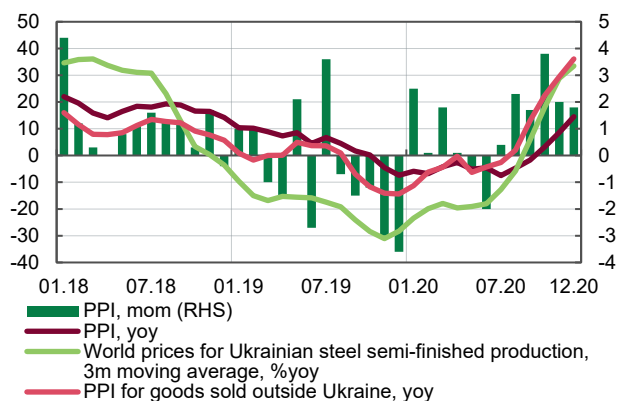
Figure 6. Fuel price indices, % yoy



Source: SSSU, Refinitiv Datastream, NBU staff estimates.

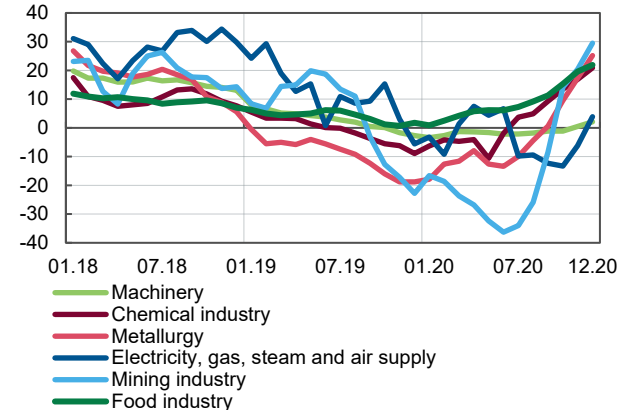
Producer prices in December continued to grow rapidly, primarily due to higher prices for Ukrainian exports (chemicals, metallurgy products, edible oils and fats), as well as rising prices for energy and electricity

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 Dec 2020
		2018	2019	2020			
				Oct	Nov	Dec	
CPI (NBU classification)							
Consumer Price Index	100.0	9.8	4.1	2.6	3.8	5.0	0.9
Core inflation	59.4	8.7	3.9	3.2	3.9	4.5	0.3
Non-core inflation*	40.6	10.7	4.8	1.7	3.9	5.9	1.7
Raw foods	19.4	3.3	3.9	-1.3	1.0	4.1	2.8
Administered prices and tariffs	18.0	18.0	8.6	7.5	9.2	9.9	0.5
Fuels	3.2	9.1	-8.2	-16.6	-13.8	-10.5	2.5
CPI (State Statistics Service of Ukraine classification)							
Food and non-alcohol	44.7	17.7	7.8	1.6	3.2	4.9	1.7
Alcohol, tobacco	8.1	20.7	17.9	9.5	9.5	9.2	0.5
Clothing and footwear	5.3	0.9	2.0	-5.1	-6.1	-7.3	-4.6
Housing, water, electricity, gas and other fuels incl.	5.4	10.6	10.6	5.5	10.8	13.6	0.1
Dwelling maintenance	0.3	47.5	23.7	3.2	3.0	2.7	0.0
Water supply	0.2	20.2	19.9	19.6	18.9	18.5	0.0
Hot water	0.2	0.9	3.2	-2.9	-2.9	-1.5	1.4
Natural gas	1.4	1.2	22.9	24	39.4	56.3	-0.4
Central heating	1.0	3.8	5.2	-10.9	-3.6	-2.4	1.3
Electricity	1.0	28.1	0.0	0.0	0.0	0.0	0.0
Transport	11.2	16.7	12.9	-0.1	1.1	2.7	0.7
Communication	2.9	9.1	15.1	3.3	3.6	4.1	0.1
Education	1.4	14.9	13.4	13.8	13.9	13.9	0.0

PPI

	Share in PPI for 2020, %**			% yoy			% mom Dec 2020
		2018	2019	2020			
				Oct	Nov	Dec	
Producer Price Index	100.0	14.2	-7.4	3.2	8.6	14.5	1.8
Mining and quarrying	15.9	14.3	-22.8	14.2	20.4	29.5	3.4
Manufacturing of coal	3.3	5.4	-23.6	-18.9	-8.2	-7.3	-1.2
Extraction of crude petroleum and natural gas	4.8	24.9	-32.3	9.8	20.8	28.6	1.6
Mining of metal ores	6.3	8.2	-21.4	28.3	28.6	44.6	7.7
Manufacturing	64.4	7.4	-5.7	8.4	12.5	15.7	1.9
Manufacture of foods, beverages and tobacco products	21.4	7.0	1.8	15.3	19.6	21.9	2.6
Manufacture of coke, and refined petroleum products	2.9	-3.1	-14.2	-4.4	2.6	1.8	-1.7
Manufacture of chemicals and chemical products	2.9	7.7	-8.9	13.5	16.9	20.9	2.3
Manufacture of basic pharmaceutical products and pharmaceutical preparation	1.5	16.7	9.6	8.7	11.5	10.4	0.7
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.7	12.6	2.6	2.6	3.4	4.1	0.3
Manufacture of basic metals and fabricated metal products, except machinery and equipment	15.9	5.6	-18.8	9.5	17.3	25.2	3.9
Manufacture of transport equipment	3.2	17.3	1.1	-2.1	-0.6	1.2	0.5
Electricity, gas, steam and air-conditioning supply	18.5	29.8	-5.6	-13.3	-6.2	3.9	0.6

*The NBU's estimates based on the data provided by the State Statistics Service of Ukraine (SSSU). The sum of CPI components may deviate from the overall CPI due to the use of dynamic weights in line with SSSU methodology, and to the rounding effect.

** The proportion of PPI components is based on the SSSU data on sales volumes of industrial products by sector in 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	RHS	Right-hand scale
NBU	the National Bank of Ukraine		