

Inflation slowed to 10.0% yoy in December 2021. In monthly terms, prices grew by 0.6%. As expected, inflation in 2021 exceeded the 5% ± 1 pp target range defined by the [Monetary Policy Guidelines](#), but the deviation was greater than projected. Actual consumer inflation in December 2021 remained above the forecast published in the NBU's [October 2021 Inflation Report](#). This was driven mostly by stronger second-round effects from higher energy prices and an increase in other production costs impacting a wide range of goods and services. In addition, faster disinflation at the end of the year was restrained by rising military tensions at the border with Russia, which affected expectations of households, businesses, and investors.

Core Inflation

In 2021, core inflation accelerated to 7.9% yoy, up from 4.5% yoy in 2020.

Processed food prices were up by 13.0% for the year. At the same time, the prices of this group of goods grew more slowly in December than in previous months. Higher production costs, in particular energy prices, supported increases in the prices of flour products, dairy, and meat products. The prices of dairy products were also impacted by [expensive inputs](#). On the other hand, the growth in prices for sunflower oil, mayonnaise, and margarine slowed as expected due to the processing of newly harvested sunflower seeds picking up pace.

Prices for services increased by 10.4% as of year-end 2021. Prices grew for a wide range of services, reflecting stronger pressures from production costs (labor costs, restaurants' expenses on food supplies, and energy costs). Faster price growth was seen in the services of fast food restaurants, cafes, cinemas, dry cleaners, and hair salons, as well as in medical diagnostic services. Personal transport insurance and package tours became more expensive as well.

Nonfood prices increased by 0.5% yoy in 2021. On the one hand, the prices of home appliances, personal care products, home goods, and household supplies went up, which can be explained by sustained demand, higher production costs, and supply chain disruptions. On the other hand, the appreciation of the hryvnia throughout most of the year restrained price growth for this component. In particular, the prices for clothing and footwear continued to decline due to this factor.

Changes in Raw Food Prices

Raw food prices increased by 11.8% yoy.

That said, the prices of this group of goods grew more slowly in December compared to the 12.8% yoy seen in November. In particular, egg and sugar prices grew more moderately. Apple prices fell further on the back of an ample harvest. The prices of citrus fruits declined more rapidly. Tomato prices continued to drop. Cucumbers also became cheaper because of an increase in imports from Turkey. Potato prices also declined. In contrast, the prices of other borshch vegetables rose sharply. In addition, the growth in milk, pork,

beef, and salo prices continued to accelerate on the back of the difficult situation in animal farming, and higher production costs. Against the backdrop of weaker harvests gathered globally in 2020 and in some countries in 2021, the latter factor drove an increase in cereal prices.

Changes in Administered Prices

Administered prices rose by 13.6% in 2021.

In December 2021, administered inflation remained flat from the previous month. An increase in the prices of transportation services (due to [Ukrainian Railways raising its commission](#) and higher costs in road transportation) was offset by a further slowing in the growth of prices of natural gas and utility services, in particular as households were offered annual contracts with fixed gas tariffs, and because the prices of some other utilities were kept unchanged for the duration of the heating season. Besides, the prices of tobacco products grew more slowly.

Changes in Fuel Prices

Fuel prices increased by 26.5% as of the year-end.

At the same time, the growth in fuel prices slowed sharply in December 2021 (compared to 33.6% yoy in November) due to a decrease in global crude oil prices. The introduction of government regulation of the fuel market in May 2021 continued to restrain price growth.

Producer Price Inflation

Producer price growth continued to accelerate in December, to 62.2% yoy (up from 60.7% yoy in November). High global energy prices and the difficult situation in electricity production in Ukraine remained the main factors behind the faster growth in prices. The PPI increased by 2.7% mom.

Price growth continued to speed up in the supply of electricity, gas, steam, and air conditioning (to 185.4% yoy from 174.0% yoy in November). Growth rates in natural gas prices for industrial producers remained high. These prices surged by more than 400% yoy in December, according to Naftogaz Trading data. Electricity prices continued to rise rapidly amid persisting coal shortages. High global prices and the shortage of coal in Ukraine sent producer prices of coal soaring (150.6% yoy, up from 53.6% yoy in November).

Due to high natural gas prices, prices continued to rise in the chemical industry, in the production of rubber and plastic, and in crude oil and natural gas extraction.

Further increase in energy costs and rapid growth in coking coal prices, which more than tripled, caused prices in the production of coke and refined petroleum products to rise in annual terms. Nevertheless, growth in metal product prices continued to slow, reflecting a correction of global steel prices and the base effect.

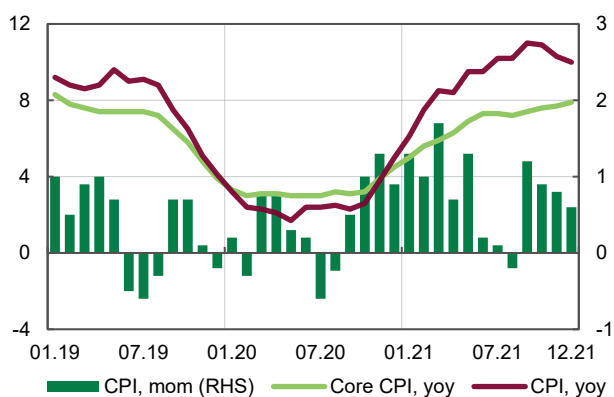
Producer prices of computers, electronic devices, and optical products increased, which was likely caused by the worldwide shortage of semiconductors.

Prices of food products continued to grow more slowly. Growth in producer prices of sugar and sunflower oil continued to slow due to the active processing of the new harvest. At the same time, prices rose in the production of meat, milk, and bakery products, driven by high prices of inputs and energy, and an increase in labor costs.

Global and export prices of iron ore continued to decline in annual terms, which led to a sharp deceleration of growth in iron ore producer prices (from 37.7% in November to 5.4% yoy in December).

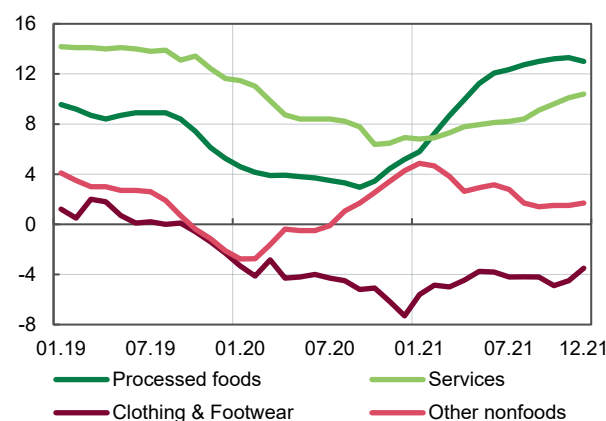
In December 2021, consumer inflation continued to decelerate in annual terms and reached 10.0%, primarily due to increased supply of fruits and vegetables and lower global prices of crude oil. However, core inflation increased on the back of higher prices of services and nonfood products. Second-round effects from high prices for energy and raw materials supported inflationary pressures

Figure 1. Consumer price indices, %



Source: SSSU.

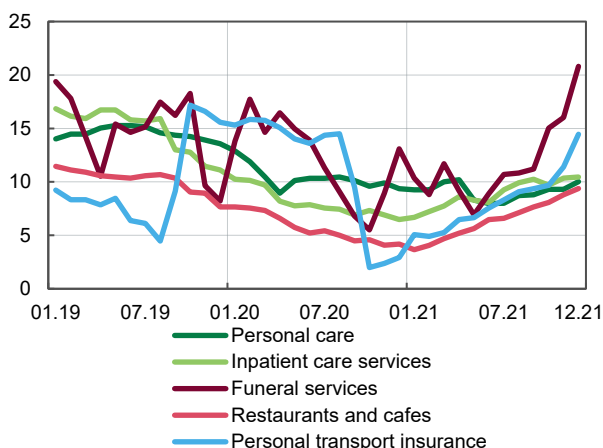
Figure 2. Main components of core CPI, % yoy



Source: SSSU, NBU calculations.

Services prices grew, fueled by stronger pressures from production costs (labor costs, restaurants' expenses on food supplies, and energy costs) and robust consumer demand

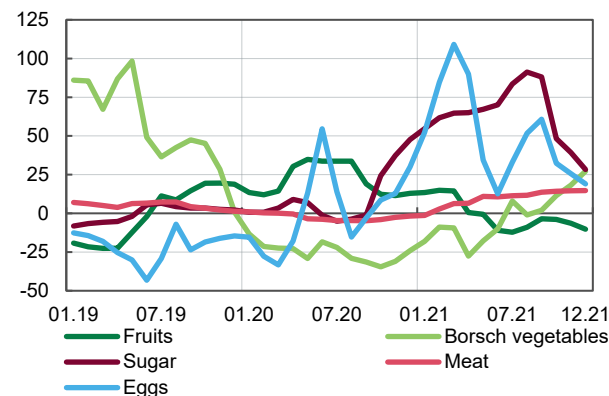
Figure 3. Prices for selected services, % yoy



Source: SSSU.

On the other hand, the growth in prices for raw foods continued to decelerate after the supply of fruits, vegetables, and sugar from the new harvest increased

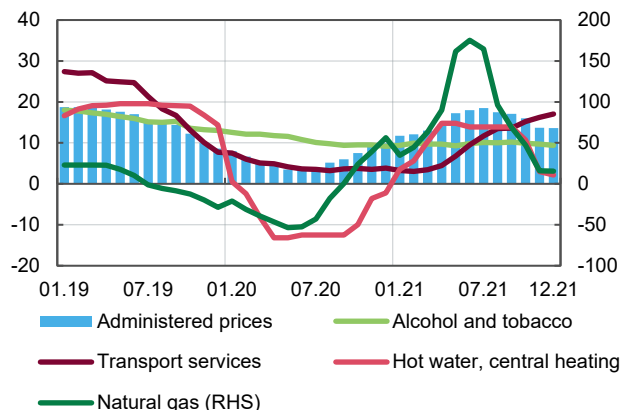
Figure 4. Prices for selected raw foods, % yoy



Source: SSSU.

Annual growth rates of administered prices were almost flat compared to November: an increase in transportation services prices was offset by a further deceleration of the growth in natural gas prices and utility tariffs

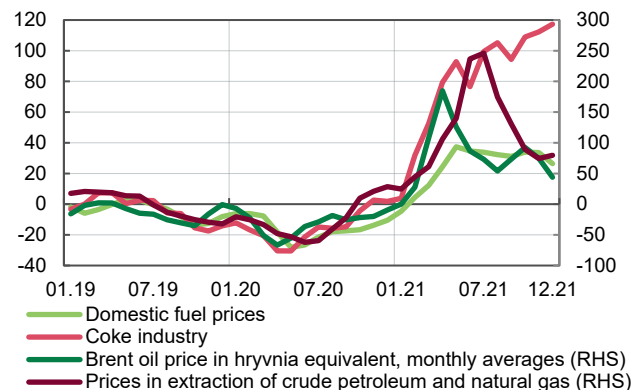
Figure 5. Components of administered prices, % yoy



Source: SSSU.

Growth rates of fuel prices continued to decrease on the back of a decline in global crude oil prices

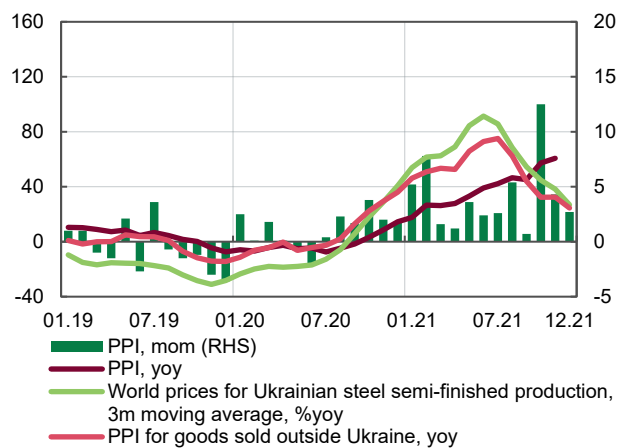
Figure 6. Fuel price indices, % yoy



Source: SSSU, Refinitiv Datastream, NBU estimates.

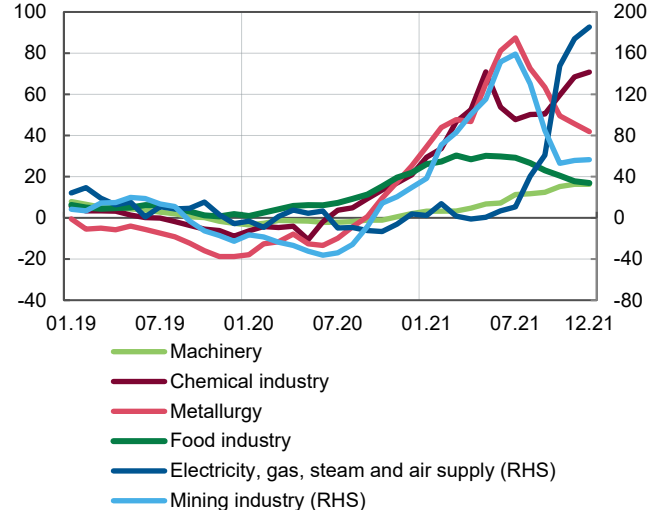
Price growth accelerated further in industrial production due to an increase in natural gas and electricity prices. However, the continued slowdown in the growth in producer prices of sugar and sunflower oil, coupled with steel prices growing more slowly and iron ore prices falling in annual terms, restrained inflationary pressures in the industrial sector

Figure 7. Producer Price Index, %



Source: SSSU.

Figure 8. Prices in some industrial sectors, % yoy



Source: SSSU.

Table 1. Change in CPI

	Share in 2021 CPI, %	%, yoy					December 2021, % mom
		2019	2020	2021			
				10	11	12	
CPI components (NBU methodology)							
Consumer Price Index	100.0	4.1	5.0	10.9	10.3	10.0	0.6
Core Inflation	59.0	3.9	4.5	7.6	7.7	7.9	0.4
Noncore inflation*	41.0	4.8	5.9	16.0	14.4	13.5	0.8
raw foods	19.0	3.9	4.1	13.8	12.8	11.8	1.9
Administered prices and tariffs	19.2	8.6	9.9	16.0	13.7	13.6	0.4
Fuel	2.8	-8.2	-10.5	33.9	33.6	26.5	0.0
Some components of the consumer basket (SSSU methodology)							
Foods and nonalcoholic beverages	43.3	7.8	4.9	13.6	13.3	12.7	1.2
Alcoholic beverages, tobacco products	7.9	17.9	9.2	9.9	9.7	9.4	0.2
Clothing and footwear	5.2	2.0	-7.3	-4.9	-4.5	-3.6	-3.5
Housing, water, electricity, natural gas and other fuels, including:	7.8	10.6	13.6	18.8	10.0	9.8	-0.1
Housing maintenance fees	0.6	23.7	2.7	5.5	6.2	6.7	0.5
Cold water supply	0.3	19.9	18.5	11.8	11.8	11.8	0.0
Hot water supply	0.2	3.2	-1.5	3.9	3.9	3.0	0.5
Natural gas	2.2	22.9	56.3	47.2	15.9	15.5	-0.7
Central heating	1.3	5.2	-2.4	11.3	2.5	1.7	0.5
Electricity	1.3	0.0	0.0	26.5	26.5	26.5	0.0
Transport	10.6	12.9	2.7	11.8	12.1	11.1	-0.2
Telecommunications	2.9	15.1	4.1	6.9	7.4	7.5	0.1
Education	1.4	13.4	13.9	16.9	16.9	17.0	0.1

Table 2. Some PPI components

	Share in 2021 PPI, %**	%, yoy					December 2021, % mom
		2019	2020	2021			
				10	11	12	
Producer Price Index	100.0	-7.4	14.5	57.2	60.7	62.2	2.7
Mining and quarrying	14.3	-22.8	29.5	53.0	55.7	56.5	3.8
Coal mining	2.3	-23.6	-7.3	42.1	53.6	150.6	61.6
Crude oil and natural gas production	3.4	-32.3	28.6	89.2	74.5	79.6	4.6
Metal ore mining	7.1	-21.4	44.6	27.4	37.7	5.4	-17.6
Manufacturing	64.7	-5.7	15.7	29.4	28.3	28.1	1.7
Production of foods, beverages, and tobacco products	23.0	1.8	21.9	20.5	17.8	16.9	1.9
Production of coke and petroleum products	2.9	-14.2	1.8	108.9	112.3	117.3	0.6
Production of chemicals and chemical products	2.8	-8.9	20.9	59.6	68.5	70.8	3.7
Production of basic pharmaceutical products and drugs	1.7	9.6	10.4	15.4	14.4	14.1	0.3
Manufacture of rubber and plastic products and other nonmetal mineral products	6.3	2.6	4.1	16.2	19.2	22.4	3.1
Metallurgical production, manufacture of finished metal products, excluding machinery and equipment	15.0	-18.8	25.2	49.6	45.7	41.9	1.1
Manufacture of motor vehicles, trailers, semi-trailers, and other vehicles	2.8	1.1	1.2	16.8	18.2	17.8	0.2
Supplies of electricity, natural gas, steam, and conditioned air	19.6	-5.6	3.9	147.7	174.0	185.4	5.1

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

** The proportion of PPI components is based on SSSU data on sales volumes of industrial products by sector in 2020.

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	National Bank of Ukraine		