



NATIONAL BANK OF UKRAINE

ANALYSIS OF INFLATION FOR JANUARY 2015

Last year's headline inflation trends spilled over into January, driven by a drop in the hryvnia exchange rate and strong inflation expectations. Consumer prices were up by 3.1% (or by 3.0% excluding seasonal factor), while the annual inflation rate increased to 28.5%.

Higher taxes on excisable goods also had a bearing on inflation: the prices of alcohol and tobacco rose by 4.6% in January, or by 30.2% year-on-year.

The core inflation rate was 2.6%, or 26.1% year-on-year, driven by a rise in the price of highly processed foods (by 4% and 32% respectively) as a result of direct effects of the exchange rate and a rise in production costs, due to higher energy and raw foods prices.

The producer price index (PPI) was up by 2.3% month-on-month, or by 34.1% year-on-year. The depreciation of hryvnia exchange rate and shortages of supplies from eastern Ukrainian enterprises continued to bear on industrial prices. A 3.7% increase in electricity prices also resulted from the introduction of an ad valorem excise tax on the supply of electricity.

Headline inflation was persistently high in early 2015.

The consumer price index (CPI) rose by 3.1% month-on-month (by 3.0% excluding seasonal factor), or by 28.5% year-on-year. This was mainly due to unrealized inflationary pressure triggered by the last year depreciation of the domestic currency. Prices were also driven by:

strong short-term depreciation expectations. In January, significant gap (5.4%) remained between the interbank market UAH/USD exchange rate and that under 1-month NDF¹;

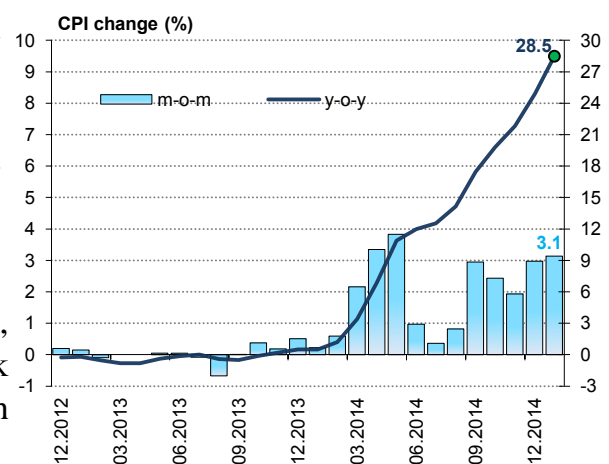
high inflationary expectations (in the last quarter of 2014, enterprises' expectations of price increase within the next 12 months were 20.5%²);

amendments to the tax laws: higher taxes on excisable products and introduction of the excise tax (5% of sales) imposed on retailers selling alcoholic beverages, tobacco products and fuels.

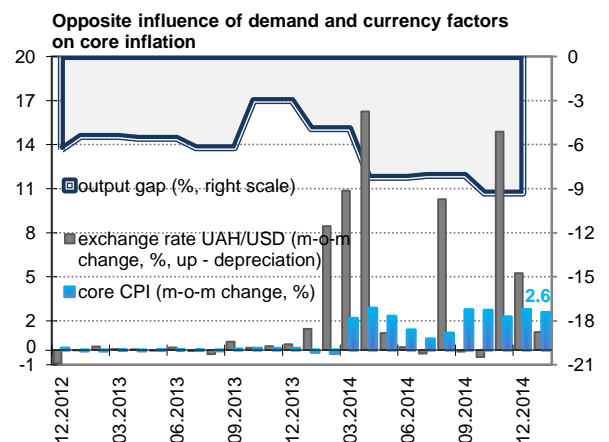
The year-on-year core inflation has hit record high.

Core CPI grew by 2.6% in January, growth rates remaining high (2.3-2.8%) for the fifth month in a row. Consequently, the year-on-year core inflation reached 26.1% exceeding the historical record high of early 2009 (23.6%).

The prices of highly processed foods grew fast (by 4% m-o-m and 32% y-o-y, respectively) due to direct



Source: State Statistics Service of Ukraine.



Source: State Statistics Service of Ukraine and National bank of Ukraine calculations.

¹ Quotations of non-deliverable forward contracts for the UAH/USD exchange rate (average monthly data from Reuters Datastream).

² According to Business Survey Q4 2014 - Issue No. 4 (36).

effects of the exchange rate and a rise in production costs in the wake of higher energy and raw foods prices.

Narrow core inflation was recorded at 1.1% in January (27.7% y-o-y) and **held back by declining prices for clothes and footwear** by 1.9%. The price reduction was mainly due to the seasonal factor (contributing -1 p. p.) and low consumer demand, while depreciation effect was deferred to further periods due to seasonal drop in imports amidst sales of the accumulated stocks.

Non-food prices, excluding clothes and footwear, grew by 3.3% m-o-m and 38.3% y-o-y.

Prices for services (excluding administered prices) showed modest growth by 1.5% (12.1% y-o-y) highlighting less dependence on the exchange rate developments.

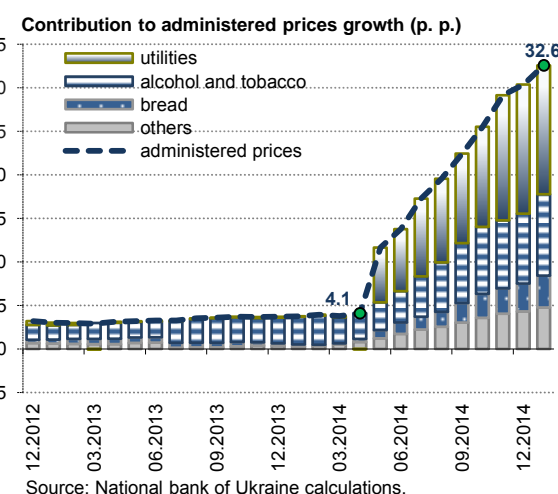
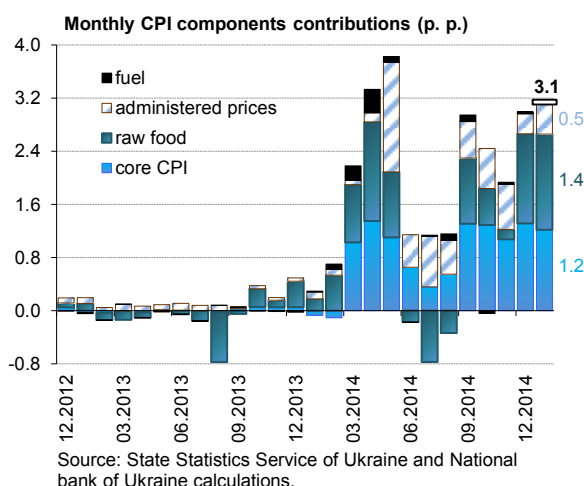
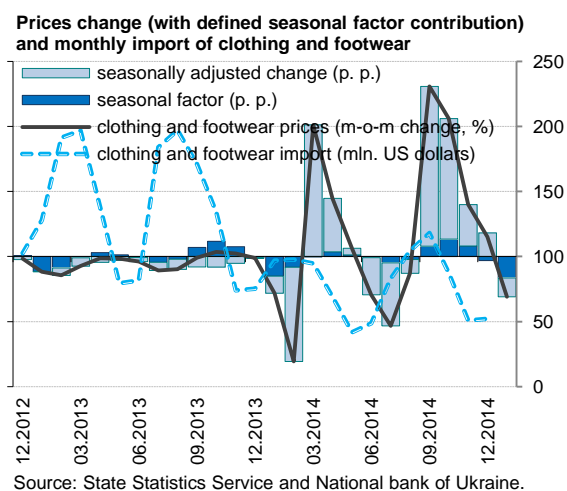
The core inflation was curbed by the aggregate demand that deviated by close to 9% from the potential level in Q4 of the last year³.

Noncore inflation was the main contributor to the CPI growth, in particular, due to growth of the prices for fruit and vegetable products. Noncore inflation (3.7% in January and 31.1% y-o-y) made a major contribution to the total inflation (1.9 p. p. and 16.1 p. p.).

In January, significant rise of food prices (by 5.1%, or 4.5% seasonally adjusted) led to 1.4 p. p. growth of CPI and was triggered primarily by increased prices for fruit and vegetable products (1.2 p. p. – contribution to the CPI). In particular, vegetable prices went up by 17.8% due to seasonal reduction of stocks and fruit prices grew by 13.5% due to a large share of imports.

Changes in the taxation policy pushed up prices for excisable goods. Administered prices increased by 2.2% in January (by 32.6% y-o-y, causing significant contribution of 7.1. p. p. to headline inflation). In particular, due to amendments to the Tax Code, prices for alcoholic beverages (by 2.6%) and tobacco products (by 5.8%) grew significantly.

Fuel prices have not changed in the reporting month. A sharp decrease of oil prices in global markets (by 22.2% in January) was offset by the hryvnia depreciation and changes to the tax law mentioned above. Thereupon, the fuel prices kept on rising year-on-year, with 59.5% growth in January.



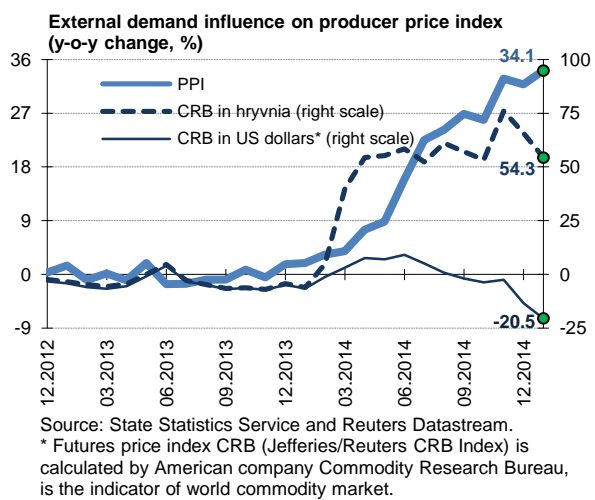
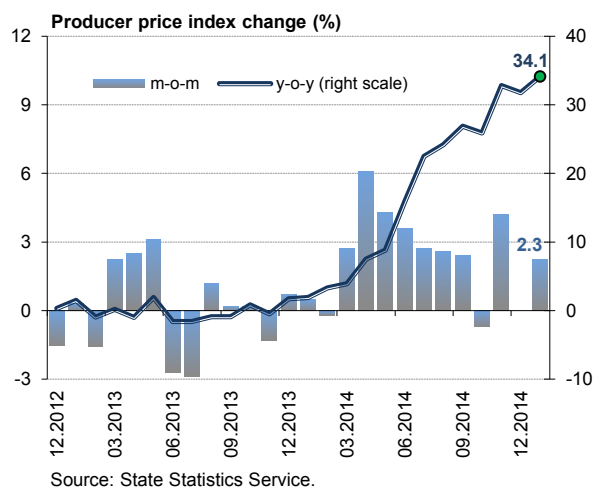
³ Monetary Policy and Economic Analysis Department estimates.

Industrial inflation drivers in January: introduction of the excise tax on energy delivery and destruction of production capacities in the East of Ukraine. PPI grew by 2.3% in the reporting month, pushing its annual growth up to 34.1%.

Energy supply prices grew by 3.7% (contributing 0.5 p. p. to PPI change) due to 3.2% ad valorem rate of the excise tax imposed on energy supplied to the wholesale market.

In the manufacturing industry, prices for coke and refining output soared (by 4.9% in January and 76.8% y-o-y) due to challenges in production and delivery of coke arisen from ceased operations and destructions at the industrial enterprises in the East of Ukraine.

The industrial inflation was contained owing to falling USD prices in the global commodity markets (by 8.7% m-o-m and 20.5% y-o-y).



Annex

Price indices changes and components contributions to CPI and PPI changes*					
Consumer basket components (National bank of Ukraine classification)					
	share of CPI, %	monthly change		annual change	
		change, %	contribution to CPI change, p. p.	change, %	contribution to CPI change, p. p.
Consumer Price Index	100.0	3.1	3.1	28.5	28.5
Core inflation	47.7	2.6	1.2	26.1	12.4
Non-core inflation	52.3	3.7	1.9	31.1	16.1
raw food	28.2	5.1	1.4	27.8	7.8
administered prices and tariffs	22.0	2.2	0.5	32.6	7.1
fuel	2.1	0.0	0.0	59.5	1.2
Consumer basket components (State Statistics Service classification)					
Food and non-alcoholic beverages incl.:	50.7	4.7	2.4	30.1	15.3
bread and cereals	7.7	4.8	0.4	41.4	3.2
bread	2.9	2.9	0.1	30.1	0.9
wheat	0.5	4.4	0.0	40.7	0.2
meat	12.1	1.4	0.2	29.4	3.6
fish	3.6	7.1	0.3	46.8	1.7
milk	1.9	1.7	0.0	14.0	0.3
eggs	1.2	1.6	0.0	77.2	0.9
oil and fats	4.8	2.5	0.1	24.1	1.2
edible animal fats	1.1	-0.2	0.0	31.5	0.3
fruit	3.5	13.5	0.5	72.8	2.6
vegetables	4.1	17.8	0.7	-3.7	-0.2
potatoes	1.1	9.4	0.1	-38.4	-0.4
sugar	1.1	1.9	0.0	23.1	0.3
Alcoholic beverages, tobacco	6.9	4.6	0.3	30.2	2.1
Clothing and footwear	7.0	-1.9	-0.1	14.3	1.0
Housing, water, electricity, gas and other fuels incl.:	11.1	0.5	0.1	34.6	3.8
imputed rentals for housing	1.4	0.1	0.0	2.2	0.0
hot water	0.4	0.0	0.0	47.6	0.2
natural gas	2.0	0.0	0.0	62.8	1.3
central heating	1.8	0.5	0.0	44.2	0.8
transport	4.9	1.2	0.1	42.7	2.1
fuels and lubricants	2.1	0.0	0.0	59.5	1.2
passenger transport by railway	0.2	1.4	0.0	21.2	0.0
passenger transport by road	1.6	1.1	0.0	23.0	0.4
Communication	3.4	0.6	0.0	3.0	0.1
Education	1.4	2.5	0.0	7.2	0.1
<i>Others</i>	14.6	-	0.3	-	4.0
PPI components					
	share of PPI, %	monthly change		annual change	
		change, %	contribution to PPI change, p. p.	change, %	contribution to PPI change, p. p.
Producer Price Index	100.0	2.3	2.3	34.1	34.1
Mining and quarrying	13.0	0.4	0.1	25.3	3.3
Manufacturing of coal	3.2	1.1	0.0	40.8	1.3
Extraction of crude petroleum and natural gas	2.6	-0.2	0.0	18.2	0.5
Mining of metal ores	6.1	-0.4	0.0	17.1	1.1
Manufacturing	68.2	2.2	1.6	37.3	25.2
Manufacture of food products, beverages and tobacco	21.5	3.8	0.8	32.1	6.9
Manufacture of coke, and refined petroleum products	3.7	0.7	0.0	54.1	2.0
Manufacture of chemicals and chemical products	3.9	2.5	0.1	56.3	2.2
Manufacture of rubber and plastics products, and other non-metallic mineral products	4.8	3.2	0.2	28.8	1.4
Manufacture of basic metals and fabricated metal products, except machinery and equipment	19.2	0.9	0.2	53.6	10.3
Manufacture of transport equipment	3.2	-0.4	0.0	9.7	0.3
Electricity, gas, steam and air-conditioning supply	18.8	3.4	0.7	30.0	5.6

* National bank of Ukraine calculations on the basis of State Statistics Service data. The sum of contributions, given in the tables, may not equal the total amounts due to rounding.