

Ukraine Watch: Inflation in October surpassed NBU policy rate

Yearly inflation renewed its seven-year maximum of 26.6%, with war-related, seasonal and devaluation factors dominating the trend. Further inflation acceleration is still possible, while we improved our year-end forecast to 30.1% yoy.

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The CPI keeps its acceleration in October by renewing its seven-year maximum to 26.6% yoy. In monthly terms it visibly accelerated to the highest number over the last four months (2.5% mom, from 1.9% in September). However, contrary to the three previous months, the actual inflation rate was quite close to our projections (2.7%), which indicates better predictability of the path after we made some adjustments of prices' reaction to recent hryvnia devaluation. Same as before, significant problems in logistics, labor and material capital caused by the war as well as the devaluation of the hryvnia led to a substantial impact on local prices last month.

Contrary to September dynamic (where food prices grew on par with the headline CPI), the influence of price hikes on food products in October was much higher (4.2% mom), which is gradually becoming the strongest pro-inflationary factor after gasoline prices. We could attribute this dynamic to both seasonal factors (e.g. 7.0% and 4.1% hikes in the prices of vegetables and fruits, respectively) and impact of the war (60.5% mom hike in the price of eggs). We also notice gradual pass-through effect of recent hryvnia devaluation on the price of imported goods, which is clearly seen in the prices of footwear and clothes (1.9% mom), household items (1.5%), pharmaceutical products (1.1%) and personal electronics (2.2%). At the same time, the stabilization of oil and gas prices helped to restrain the prices of fuel and transportation services low (0.2%) which showed just a marginal increase for the fourth month in a row. Freeze on any hikes in public utility tariffs still keeps inflation there at rather low level, while providing potential accumulating effect on inflation for the post-war period.

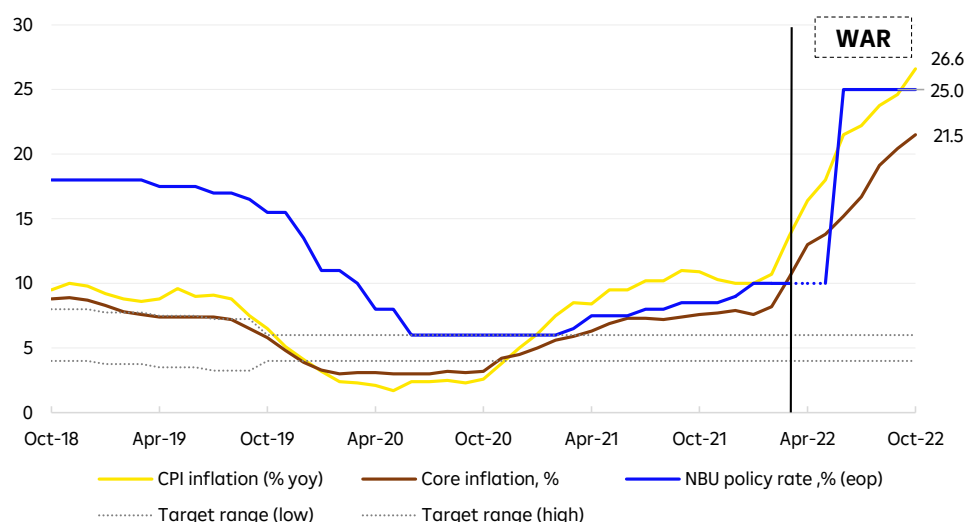
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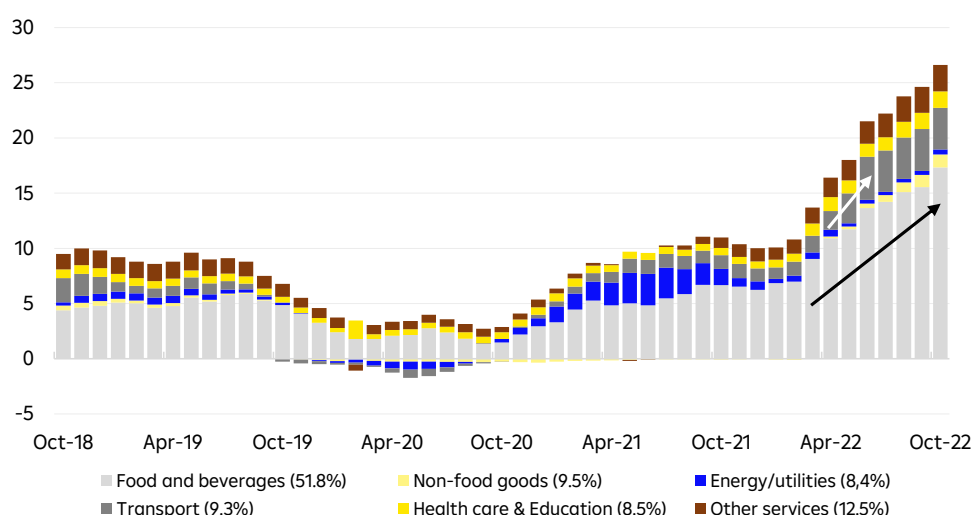
Chart 1 - Inflation and NBU policy rate



Source: NBU, RBI/Raiffeisen Research

Even though inflation has finally surpassed the NBU policy rate, we still do not think this would be a valid reason for the regulator to adjust its rate correspondingly. We think current inflation track remains close to the NBU projected trajectory. Hence, additional spike in CPI above the NBU policy rate could be a short-term phenomenon, while the effect from previous hike in the rate to 25% has not still fully transferred into rates on the market. Additionally, we see an even slower pace of acceleration of core CPI (from 20.4% yoy in September to 21.5% in October), which thus remains below the key rate. Hence, a preservation of the 25% policy rate is a more likely scenario for the next NBU monetary committee meeting on 8 December. On the other hand, war-related and seasonal factors would still contribute to inflation acceleration for the coming two months of the year. However, slightly smaller inflation in October against our projections as well as positive impact from the liberation of Ukrainian territories and weaker near-term devaluation fears allow us to correct our year-end CPI forecast slightly downwards to 30.1%.

Chart 2 - Contribution to CPI (pp)



Source: Ukrstat, RBI/Raiffeisen Research

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