

Ukraine Watch: Inflation in June surprised to the upside

In June, inflation accelerated to 2.2% mom due to a significant increase in electricity tariffs, raising the annual rate to 4.8%. Food prices saw modest growth, while other categories also increased. Despite this, inflation remains below the NBU's forecast of 5.4%.

Inflation in June surprised to the upside **1**

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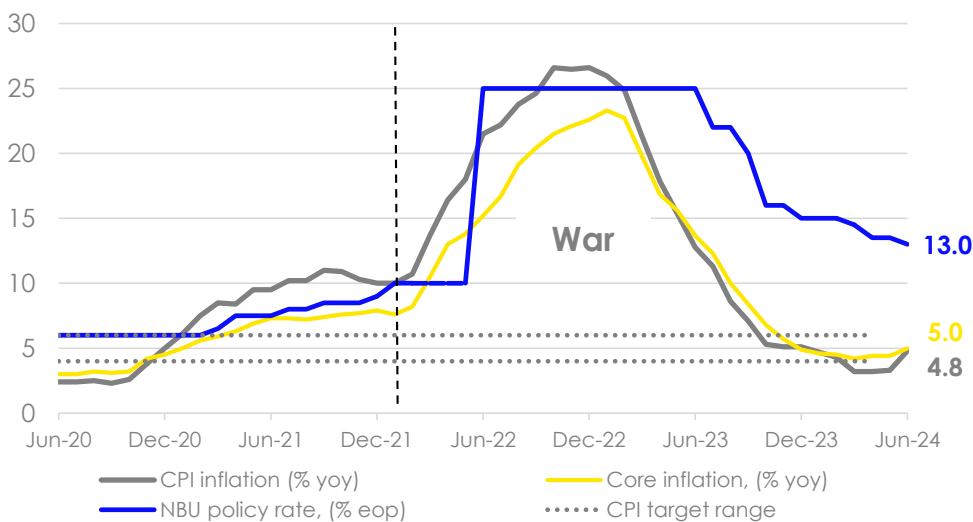
Analyst **6**



Inflation in June surprised to the upside

It was already a usual practice to see positive surprises in inflation over the last 1.5 years with lower than expected readings. However, **inflation in June was surprisingly high**. Even though the noticeable acceleration in monthly growth in June was fully expected (especially after a solid increase in electricity tariffs by 64% mom), it actually occurred **much faster than expected and amounted to 2.2%** (compared to 0.6% in May). Accordingly, the annual inflation increased from 3.3% to this year's maximum of 4.8% in June.

Chart 1 - Inflation and key policy rate



Source: Ukrstat, NBU, RBI/Raiffeisen Research

Monthly inflation higher than 2% was last recorded in October 2022. Afterwards, there was a clear disinflationary trend, while the monthly rate of price growth exceeded 1% only once from November 2022 to May 2024. Moreover, the rapid acceleration in inflation in June **was not entirely caused by a hike in residential electricity tariffs**, because a

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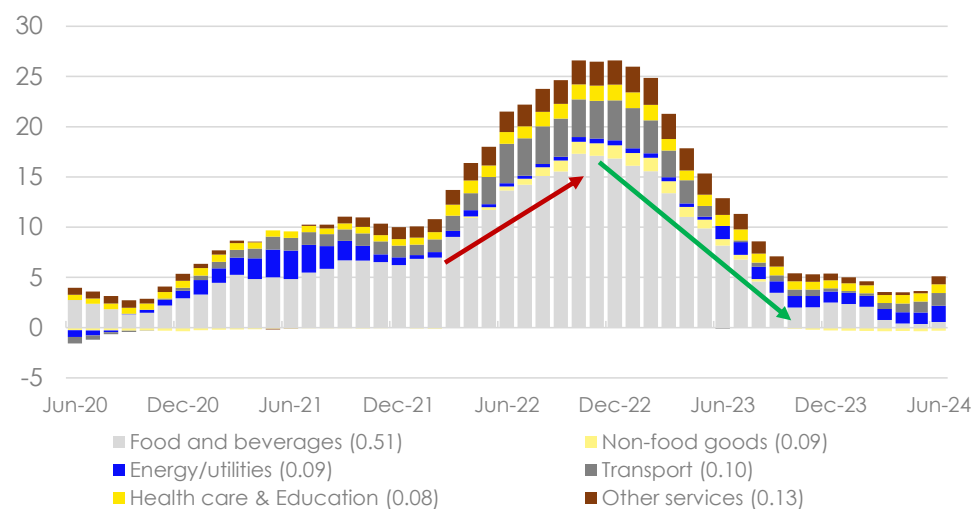
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similar spike a year ago caused to increase by just 0.8%. Therefore, other pro-inflationary factors caused such a rapid CPI acceleration in June.

The dynamic in food prices was not quite strong (0.5% mom) compared to the CPI increase, with **a noticeable rebound in prices** for eggs (15.5%), sugar (3.2%), and sunflower oil (1.4%), following their earlier decline. Hence, their upward correction in June could not be viewed as a long-term pro-inflationary factor, while their yoy dynamic remains negative. The absence of any visible decline in the prices of fruits and vegetables indicates a rather weak seasonal effect so far.

We can treat an increase in prices of alcoholic beverages and tobacco (1.1% mom), communication (1.1%), transportation (0.8%), healthcare (0.8%), and restaurants and hotels (0.7%) as **evidence of the influence of the recent hryvnia devaluation** on the prices of imported goods and services. However, **the largest increase was recorded in the dynamic of public utility tariffs** with a 17.4% hike, which contributed 1.5 percentage points to the total CPI figure of 2.2%. In this category, besides electricity tariffs, there was also a solid increase in the tariffs for managing apartment buildings (which may reflect the increase in the minimum wage from April and the rise in electricity costs).

Chart 2 - Contribution to CPI (pp)



Source: Ukrstat, RBI/Raiffeisen Research

Even considering the noticeable acceleration of inflation in June, it still does not seem threatening, as **most pro-inflationary factors were unsustainable**. Moreover, the actual **inflation at the end of the second quarter remains lower than the NBU forecast** of 5.4% released in April. On the other hand, core inflation in June accelerated from 4.4% to 5.0% yoy, thus fully fitting the latest NBU forecast. Besides, the headline CPI returned to the NBU target range of 4%-6% after a three-month spring pause. We suspect that current inflation dynamics may alter the view of NBU monetary committee members regarding the path of the policy rate in the near term. In particular, **the intention to lower the key rate by 50 bp** at the next meeting on July 25 **may not be so evident** under current circumstances, as it was highly above market expectations, while inflation stays in its targeted range. Therefore, it may be **more rational to take a pause** this month, thus more precisely looking for the sustainability of current pro-inflationary factors.

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