

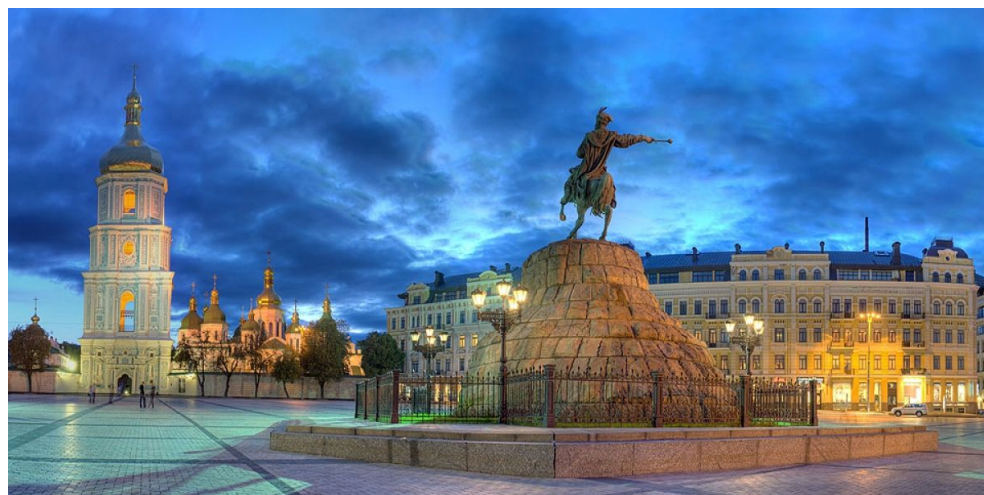
Ukraine Watch: CPI inflation slowing further, but remains elevated

Inflation in 2021 accelerated from 5.0% to 10.0%, and the NBU raised the rate five times during the year, a cumulative total of 300bp, from 6.0% to 9.0%. The most considerable contribution to inflation comes from food prices, caused mainly by increasing prices on global markets.

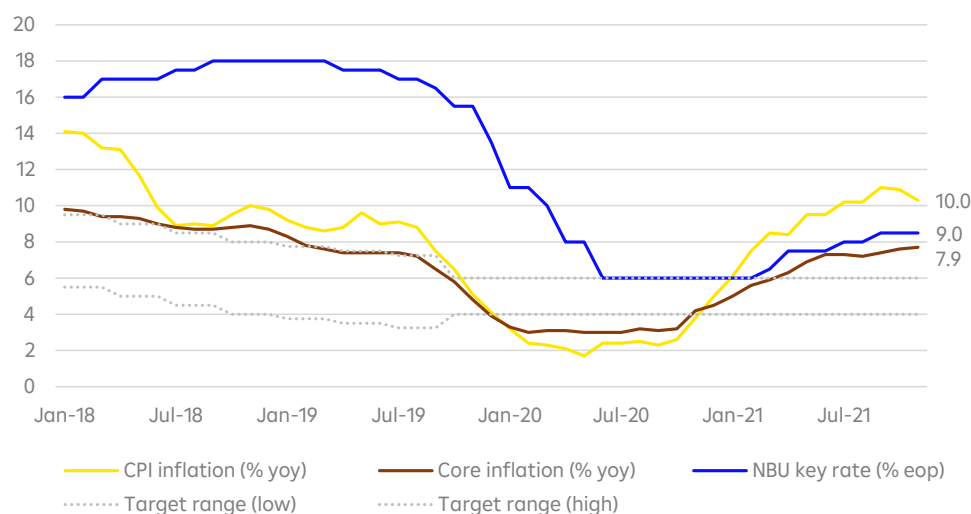
December CPI increased 0.6% mom (10% yoy vs 10.3% in Nov), whilst core inflation jumped by 20bp. **1**

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Inflation and key rate dynamics



NBU, RBI/Raiffeisen Research

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As per our current stance, we don't see a possible incoming shock from the demand side and inflation mildly decreases, which possibly may calm down the hawkish National Bank of Ukraine, as Ukraine's economy still is in recovery from the Covid shock. On the other hand, current supply shocks remain to be the key inflationary risks in the short and medium-term.

Overall, **prices for food** and non-alcoholic beverages **increased by 1.2% mom (12.7% yoy)**, which is roughly on par with the previous months. On the other hand, the direction of the developments were distinct from product to product. Eggs, vegetables, and milk

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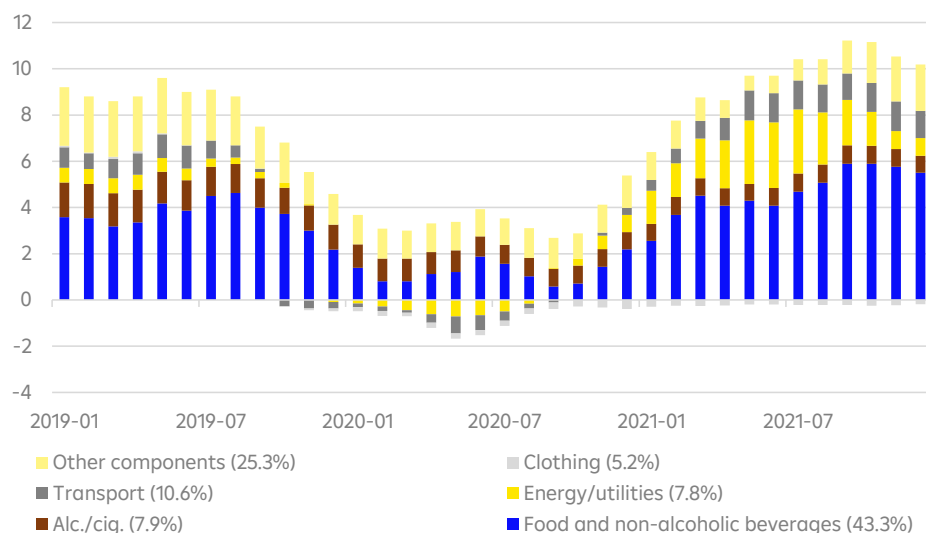
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went up the most, in a range from 3% mom to 10% mom. However, prices for fruits, sugar, sunflower oil, and poultry have fallen mildly. **Since autumn 2020, food inflation has been accelerating sharply, and its contribution to CPI increased rapidly, from 0.7pp in October 2020, to 5.9pp in October 2021.** On a monthly basis, prices for alcoholic beverages and tobacco products increased by 0.2%, while tobacco products rose by 1.0% due to excise and prices for alcoholic beverages fell by 0.6% mom. **Clothing and footwear continue the downward trend** and fell by 3.6% mom (-3.8% yoy).

Utilities decreased by 0.1% mom, although in yearly terms, the increase was at 9.8% and transport prices fell by 0.2% mom, mainly thanks to cheaper fuel, but increased by 11.1% yoy.

Contribution to CPI (in pp)



Ukrstat, RBI/Raiffeisen Research

By granting the state-owned company Naftogaz the status of "supplier of last resort", **natural gas and heating prices were contained in the last months.** As a result, energy's contribution to CPI fell from 2.8pp in May-July to 0.8 pp in November-December. However, from May 2022, prices will have to be released again, triggering pent-up inflation. Also, a stronger hryvnia and a good fruit crop, with prices in 2021 dropping by 10.2%, has had a dampening effect.

In the absence of any adverse external shocks, we expect a slowdown of inflation in the next few months to reach below 9% in March. This will be supported by a relative tightening of monetary policy and restrained fiscal policy, including no substantial wage increases in the public sector, as was the case in early 2021.

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