

Ukraine Watch: Inflation accelerated in March presumably on seasonality

Inflation accelerated to 1.5% in March, driven by seasonal changes in methodology, and rising egg prices. Annual inflation reached 14.6%, surpassing NBU's forecast. Hryvnia strengthening and oil price drops could help stabilize inflation this month.

Inflation accelerated in March presumably on seasonal factors **1**

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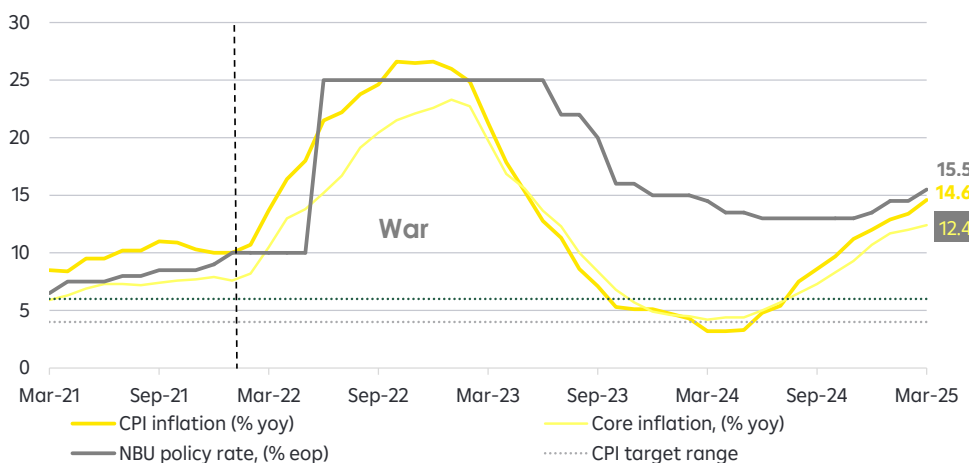
Analyst **6**



Inflation accelerated in March presumably on seasonal factors

Higher monthly inflation rates in March in mom terms are usually backed by two main factors. The first one is **the seasonality of prices for fruits and vegetables**. The second one is the technical transition in **the method of calculation in prices for clothing and footwear** from the winter to summer, which usually represents a cumulative effect of price changes in this category over the last six months. However, the first factor has been influencing inflation already for a few months in a row, while the second one has its impact just twice per year. If considering the weight of this category in the CPI calculation, it usually **adds 0.6-0.7pp to the monthly inflation rate** in March, thus almost **entirely explaining the acceleration of monthly inflation from 0.8% to 1.5% in March 2025**.

Chart 1 - Inflation and key policy rate



Source: Ukrstat, NBU, RBI/Raiffeisen Research

Besides just seasonal patterns, we notice a contribution of **a fairly strong 18.8% mom rise in egg prices**, which added 0.2pp to the monthly inflation. We understand this was not a local trend if we look for a global deficit of eggs (which caused a price hike) after a shortage in their supply in the US. Hence, external trade statistics from the Customs office showed a solid hike in egg exports from Ukraine, which limited domestic supply and contributed correspondingly to the price increase locally. Even though similar trends were observed in the first week of April, we are not sure about the sustainability of a hike in egg prices after the Easter holidays.

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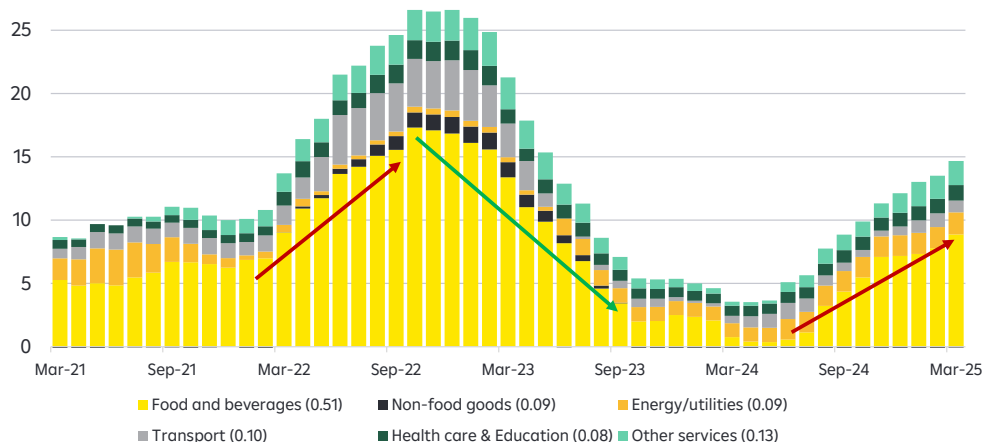
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A certain surprise in price dynamics came from pharmaceutical products, which grew by 1.9% over the month in March. This strictly contradicts to the fact of **reduction in prices for some pharmaceutical products by domestic producers** since 1 March due to respective initiative from the government. Instead, we notice even an acceleration in positive mom price dynamics to 1.9% in March from 1.1% a month before. We recognize that not all product prices were reduced, and foreign producers were not required to adopt the same pricing strategy, which may have impacted last month's growth pattern

The annual inflation accelerated to **14.6% in March**, which is close to our expectations, while exceeding the NBU forecast of 14.3% slightly. Even though we are not sure that this would be a valuable argument for another rate hike by the NBU next week, we see **growing chances of a preservation of the rate at its current level of 15.5%**. Indeed, the low comparison base of last year and rather cold weather in early April may become additional pro-inflationary factors, thus possibly accelerating annual inflation slightly again, albeit in line with estimates.

Chart 2 - Contributions to CPI (pp)



Source: Ukrstat, RBI/Raiffeisen Research

On the other hand, we believe that **a slight hryvnia strengthening in recent weeks and a visible drop in oil prices could be mitigating factors for inflation** this month. Moreover, the heightened risks of a global recession due to the intensification of tariff wars can negatively impact resources' prices (in the manner it did in 2020). Consequently, **we maintain our year-end inflation forecast in 2025 at 8.0%**.

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