

Ukraine Watch: Inflation in April exceeded forecasts

The acceleration in annual inflation was not a surprise to us, but the pace of growth was above our forecasts. War-related factors will drive inflation acceleration further, therefore we had to further increase our 2022 forecasts.

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Unsurprisingly, inflation in Ukraine continues to increase in yoy terms in April to the levels not seen over the last six years (16.4%). Even though mom CPI in April (3.1%) was weaker than the figure of the first month of the war (4.5%), it still looks quite high in annual terms if compared to March level (13.7%). With few notable exceptions, we see several interrelated supply shocks across economic sectors that have propagated deep into the prices of goods in Ukraine. The actual CPI figure exceeded our forecast of 15.7%. It recorded a stronger rise in food products' prices than we expected initially and as the adjustment of supply to shocks caused by the war continued.

Yet, inflation dynamics remained geographically nonhomogeneous, and places close to the conflict zones increased on average higher due to logistics and other risk factors. It is also not clear whether the price dynamic on temporarily occupied territories was taken into account or not, because it could significantly change the actual inflation pattern.

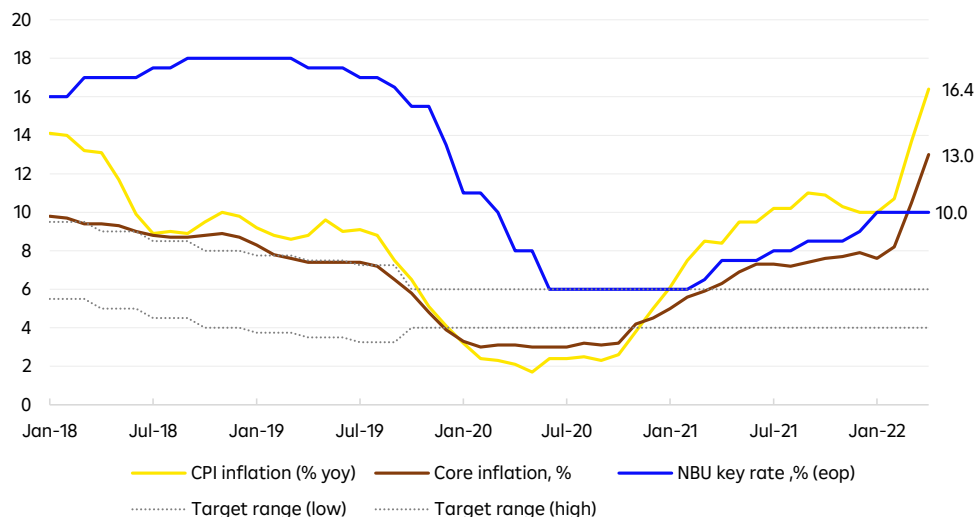
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Inflation and key rate dynamics

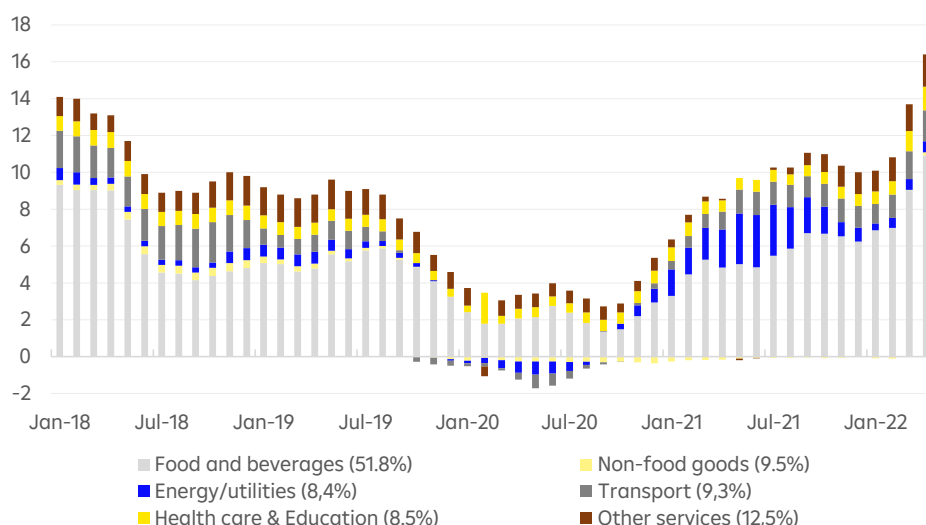


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In April, food prices posted a substantial mom growth (4.2%) with an upturn in vegetables and fruits of 8.5% and 14.9%, respectively, reflecting both seasonal patterns and potential shortage in supplies due to occupation of southern territories. War factors also influenced a higher than usual hike in grain-related products by 2.7%-8.6% mom. The dynamic of food prices does not clearly reflect the influence of any administrative price controls that the government tries to apply during the martial law regime. The same increase in prices as in food products was recorded in the price of pharmaceuticals (4.2% mom) which might reflect increasing demand and some supply interruptions due to the war.

It was no surprise to see just a mild monthly hike in public utility tariffs (0.6%) as they are under strict control from the government during the martial law. However, just a 0.5% increase in the price of fuel seems rather unrealistic to us if considering the global oil price increase and a substantial hike in Ukraine recently due to its deficit after the destruction of fuel bases and oil refineries inside the country. Definitely, we will see this effect in the dynamic of prices for May. Nevertheless, preservation of the exchange rate at the same level was effective in restraining the growth in the prices of imported products.

Contributions to CPI



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We expect to see some slowdown in prices growth in the near future due to adjustment of supply chains to new conditions and gradual weakening of demand shocks caused by

the war. However, the return of fuel prices to market-driven levels as well as a seasonal increase in food products would still keep inflation high for at least a month or two. In any case, we think the inflationary trend is likely to persist during the whole 2022. Hence, we decided to increase our year-end CPI forecast from 17.0% to 20.5% yoy, with average inflation for the whole year also adjusting upwards from 15.0% to the current projection of 16.9% yoy.

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
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