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First quarter consumer prices surge

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Ukraine's consumer prices soared at their highest rate in eight years in March, causing first-quarter inflation to exceed the government's forecast for the whole year.

Inflation rose 26.2 percent compared to the same yearago month, the State Statistics Committee reported April 7, and 3.8 percent compared to the prior month.

The Cabinet of Ministers' inflation projection is 9.6 percent for 2008, while firstquarter inflation was 9.7 percent, compared to the prior quarter.

Analysts singled out inflation as the biggest challenge for the country's economic growth prospects, while political pundits have dubbed it as a key litmus test for the government, led by Prime Minister Yulia Tymoshenko.

Economists blamed much of the inflationary pressures on global increases in energy and food prices.

Domestically, fruit and vegetable prices rose 33 percent in the first quarter, compared to the prior quarter.

Sunflower oil prices increased 27 percent, meat prices rose 17 percent, potato prices increased 17 percent and bread prices rose 10 percent.

Critics have also blamed the Tymoshenko government's policies, although the prime minister insisted she inherited the inflation from the government of her predecessor, Viktor Yanukovych.

Grain export quotas imposed by Yanukovych remain in place, resulting in Ukrainian farmers avoiding the planting of crops, out of fear they will not be able to sell them domestically or export them at market prices.

Some economists also pointed to Tymoshenko's program launched in January to refund savings lost in the Soviet Union's collapse as a populist policy that fueled inflation.

Calls for panic by politicians eager to oust Tymoshenko's government have also been seen as a psychological factor that has fueled inflation, economists said.

At the current rate, Ukraine will have the worst annual inflation since 2000, when it was 25.8 percent.

Based on the first quarter, the World Bank worsened its inflation forecast to 17.2 percent in 2008. The International Monetary Fund revised its forecast to more than 20 percent.

Market analysts said the government must adopt unpopular measures to control inflation: cut budget expenditures, decrease subsidies in several economic sectors and gradually introduce price hikes for energy fuels.

As possible relief, food prices could decline in the summer after the harvest, experts said.

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