National Bank of Ukraine

Monthly Macroeconomic and Monetary Review

September 2022

Monetary Policy and Economic Analysis Department

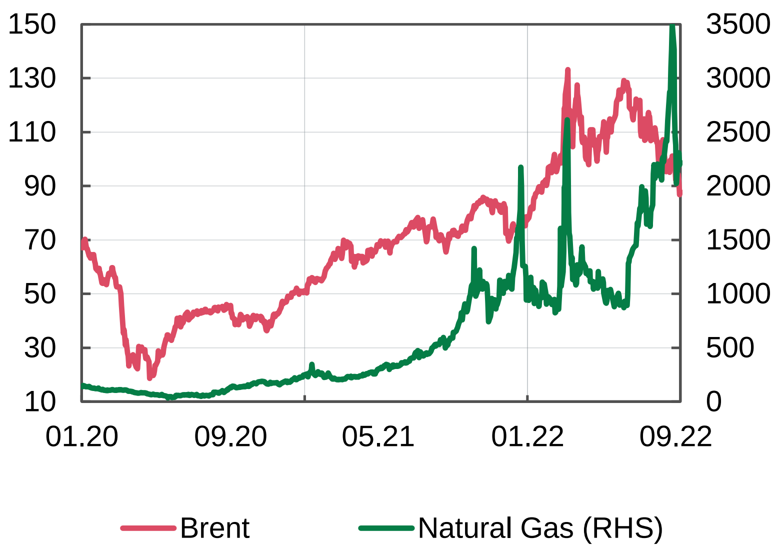
Summary

- Rising energy prices **exacerbated already high inflationary pressure worldwide. Accordingly, the latter forced the major CBs to further hike** key rates. Meanwhile, central banks in EMs are considering bringing their tightening cycles to an end due to slowing economic growth
- **Consumer inflation in Ukraine is accelerating** (to 23.8% yoy in August from 22.2% yoy in July). Pass-through effects from high energy prices, correction of the hryvnia exchange rate, the consequences of russia's terrorist actions and the temporary occupation of certain territories remain the main factors of increasing inflationary pressure
- **Economic activity is showing signs of stabilization at a low level** in both the manufacturing and service sectors. Further recovery is hampered by the destruction of capacities and hostilities, reduction in demand and decrease in the purchasing power of households, logistical difficulties, primarily for metallurgical enterprises. Despite the circumstances of wartime, harvesting continues quite successfully, which, coupled with the restoration of some ports, provides support for economic activity
- Demand for labor was pick up expectedly due to seasonal work. However, **the number of resumes still significantly exceeds the number of vacancies, which puts downward pressure on wages in the private sector**. Migration remains steady both abroad and within Ukraine
- In July, despite the widening of the merchandise trade deficit, **the current account returned to surplus** due to larger international aid in the form of grants. Coupled with a decrease in private sector capital outflows, this contributed to a slowdown in the reduction of international reserves in July and ensured their growth in August
- In July - August, **the state budget deficit decreased significantly**, in particular as a result of higher tax revenues, while expenditures continued to be substantial. The negative balance was covered mainly **by international and monetary financing**
- **The impact of increasing the key policy rate on market interest rates is accelerating. However, it remains limited as liquidity increases further.** Official hryvnia exchange rate correction in July and additional NBU`s measures to reduce the devaluation pressures, as well as the establishment of the grain corridor allowed to ease the pressure in the FX market

External Environment

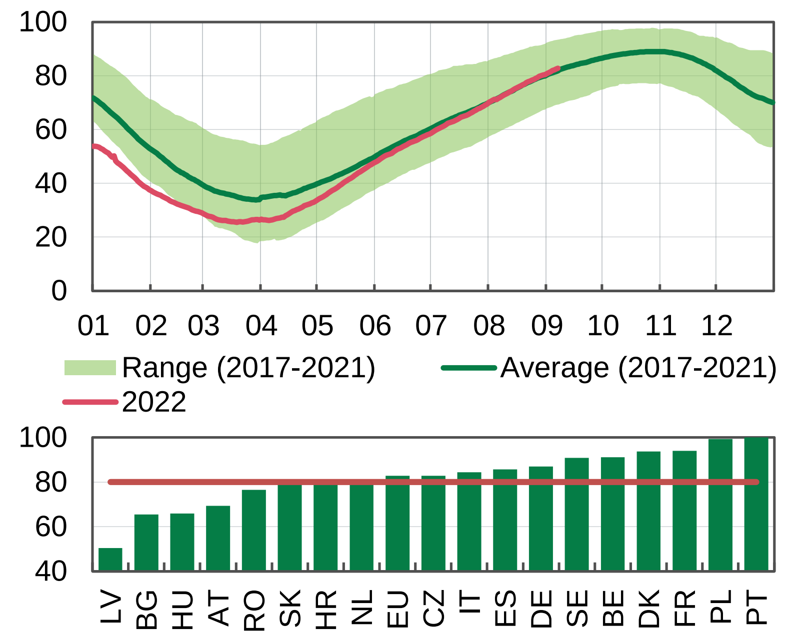
Global oil prices were gradually easing, while gas prices reached new record highs due to russia's blackmail

Crude oil (Brent, USD/bbl) and natural gas (TTF, USD/kcm) world prices



Source: Refinitiv.

EU gas storage inventories, % full

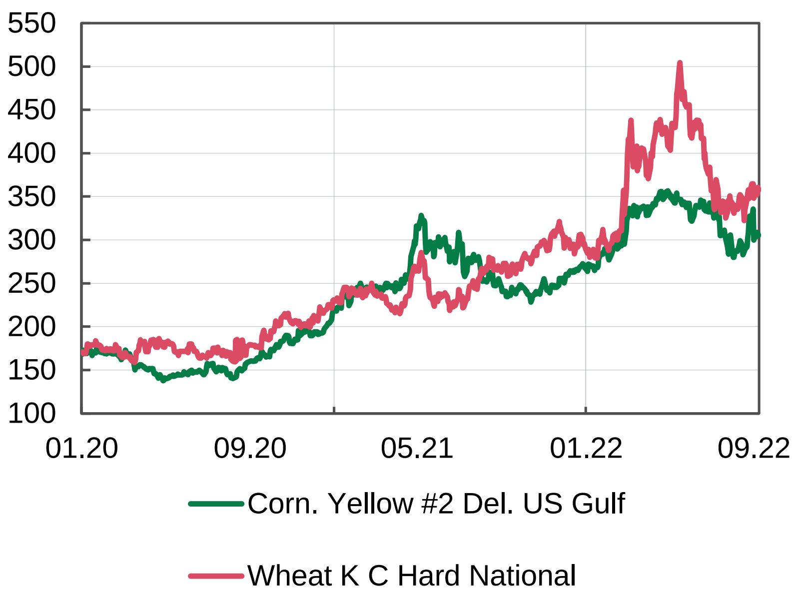


Source: Gas Infrastructure Europe (as of 07.09.2022).

- World crude oil prices were easing due to weak demand amid slowing global economy, record oil and petroleum products exports from the U.S., and optimism regarding the nuclear deal between Iran and the U.S. In contrast, decline in prices was restrained by possible reduction in oil production by OPEC, and G7 resolution to cap the price of russian oil.
- European natural gas prices reached a new record high as russia halted gas supplies via the NS1 pipeline. However, the rapid filling of gas storage in Europe, particularly by advanced economies, caused price correction. The EU countries have managed to fill their storage ahead of schedule by more than 80% (level required by 01.11.22) through aggressive LNG imports

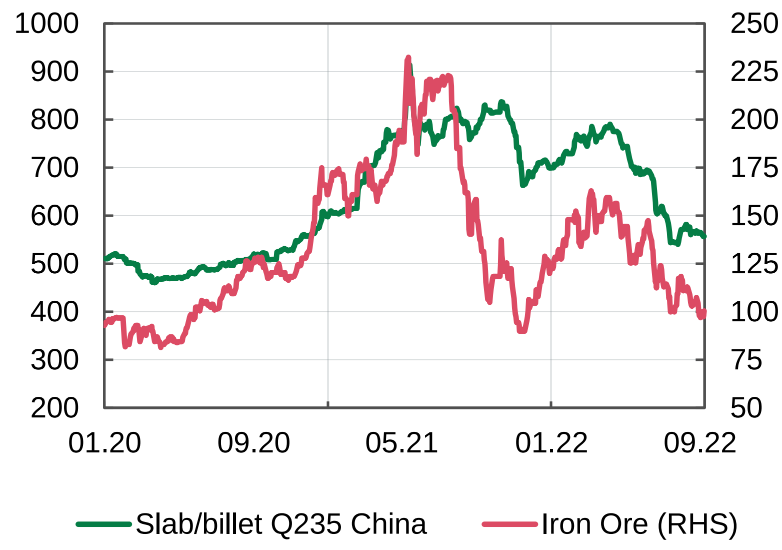
Prices on world commodity markets were mainly decreasing amid increasing export by Ukraine and weakening demand from China

Wheat and corn world prices, USD/MT



Source: Refinitiv.

Steel and iron ore world prices, USD/MT

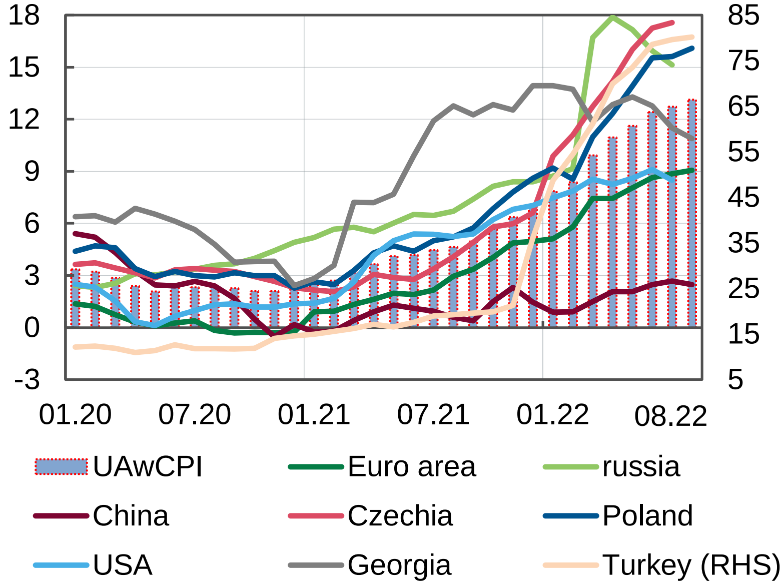


Source: Refinitiv.

- World grain prices, in particular wheat and corn, decreased thanks to the intensification of exports by Ukraine in the conditions of the current harvest. However, the deterioration of expectations regarding the volume of the world harvest due to the heat (in particular in Europe - the largest in the last 500 years) corrected the prices upwards
- Global steel and iron ore prices continued to decline, primarily due to reduced demand from China due to continued quarantine measures in certain provinces and the crisis in the real estate sector. An additional factor was sluggish business activity in most regions of the world

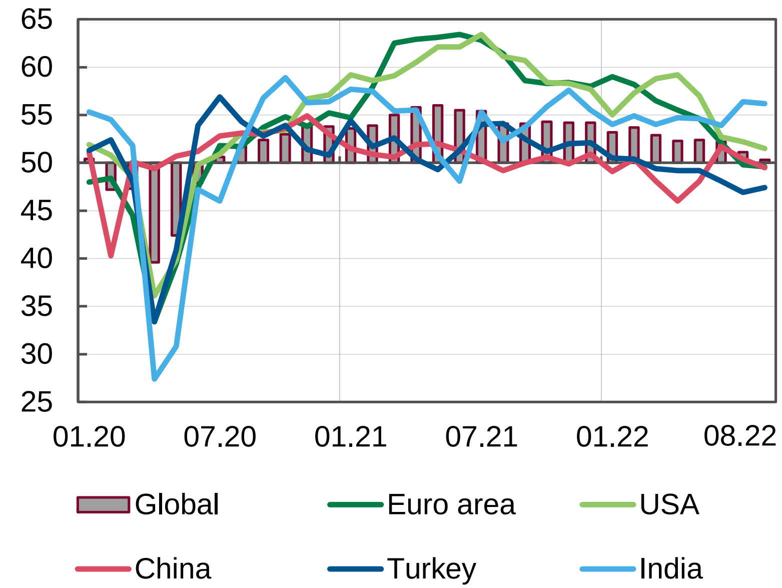
Global inflationary pressures were further intensifying, while growth in economic activity was slowing

CPI in selected countries and Weighted Average of Ukraine's MTP countries' CPI (UAwCPI), % yoy



Source: National statistical offices, NBU staff estimates.

Manufacturing PMI of selected countries and global index

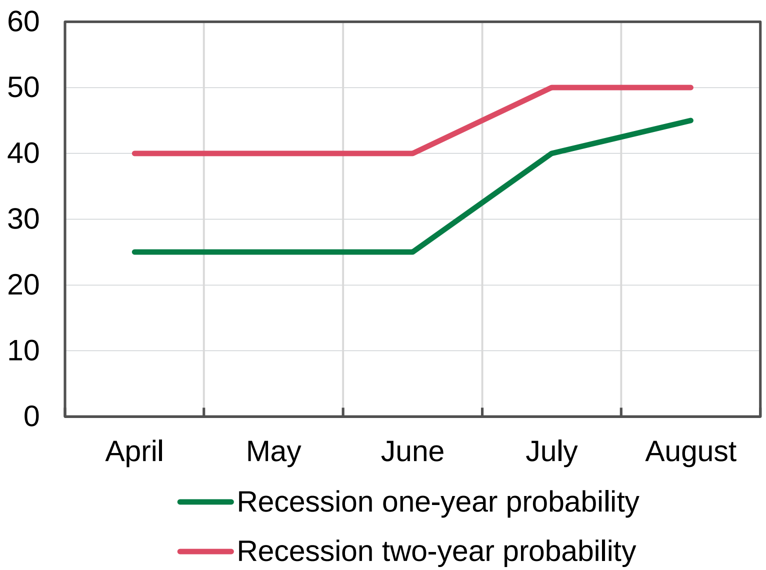


Source: S&P Global.

- Intensified inflationary pressures were evidenced by the UAwCPI, which reached 13% yoy in August
- Energy and food are the main factors behind rising inflation worldwide
- According to the PMI readings, global production is stagnating, and the number of new orders is decreasing. Business confidence has dropped to the lowest level in more than 2 years. The slowdown is primarily concentrated in developed economies

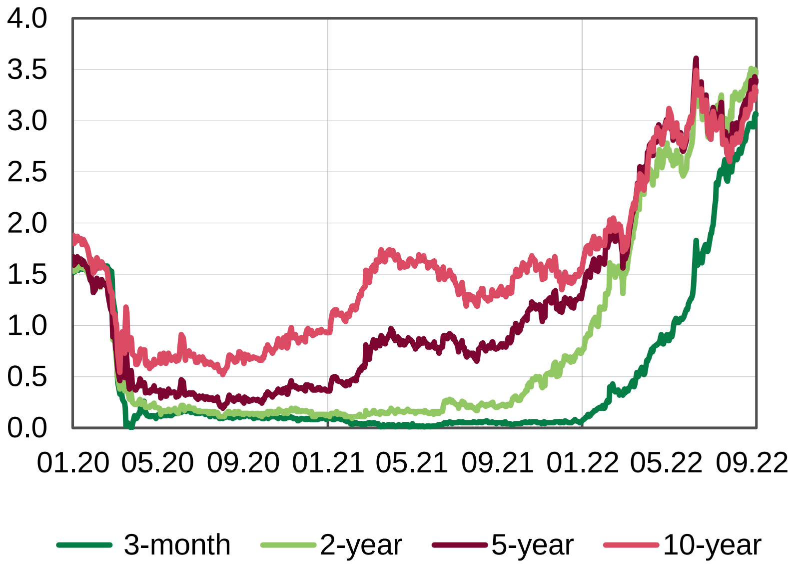
Major CBs have determined intention to fight excessive inflation despite risks of recession

U.S. recession probabilities (median), %



Source: Reuters poll.

Market yields on U.S. Treasury securities, %

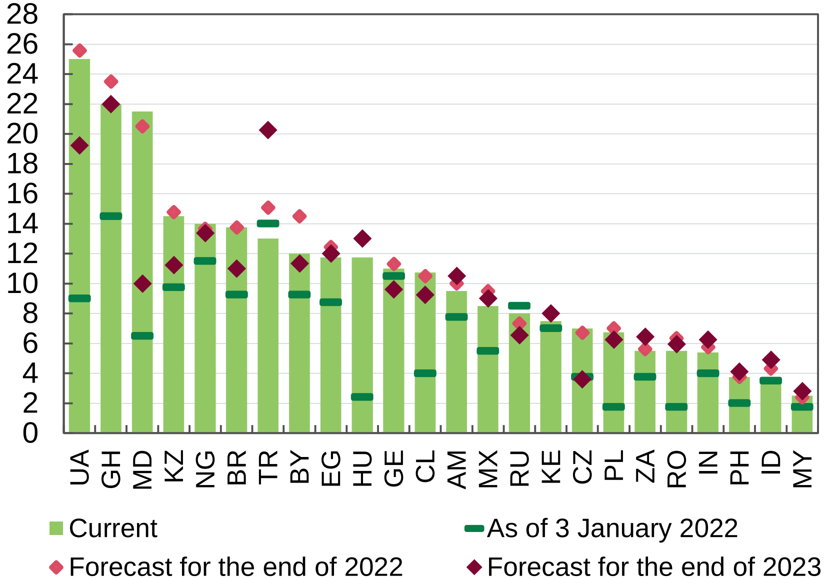


Source: Fed.

- **The Fed** expectedly raised the federal funds target range by 75 bps to 2.25-2.5% (a neutral level, according to most Fed policymakers), expects further hikes (perhaps at a slower pace) and will continue to reduce its assets. J. Powell signaled that interest rates would be kept higher for longer
- **The ECB** raised rates for the first time in 11 years by 50 bps more significantly than expected, continued with the largest step in history – 75 bps (base, deposit and credit - up to 1.25%, 0.75% and 1.5%, respectively), and signaled further normalization of monetary policy (at probably more than two but less than five meetings including this one in September). The tightening cycle may end, probably at 2.25%, in early 2023, exceeding the neutral level (around 1.5%)

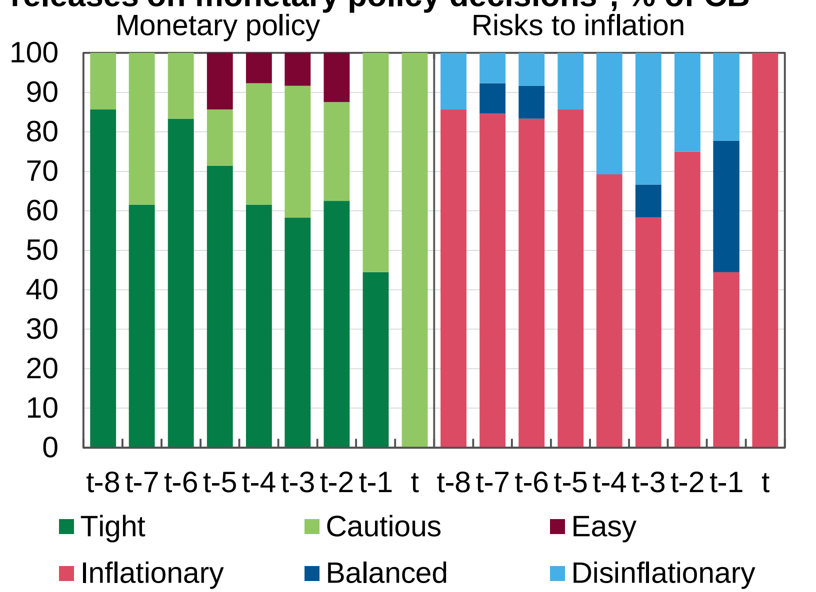
Instead, the monetary policy tightening cycle of some EM CBs has slowed down

Key policy rates in selected EM countries, %



Source: official web pages of central banks, Focus Economics, Trading Economics, as of 09.09.22.

Balance of CBs' sentiments according to press releases on monetary policy decisions*, % of CB



* t – meeting in Sep 2022, t-1 – Aug 2022, t-2 – Jul 2022, t-3 – Jun 2022, t-4 – May 2022, t-5 – Apr 2022, t-6 – Mar 2022, t-7 – Feb 2022, t-8 – Jan 2022

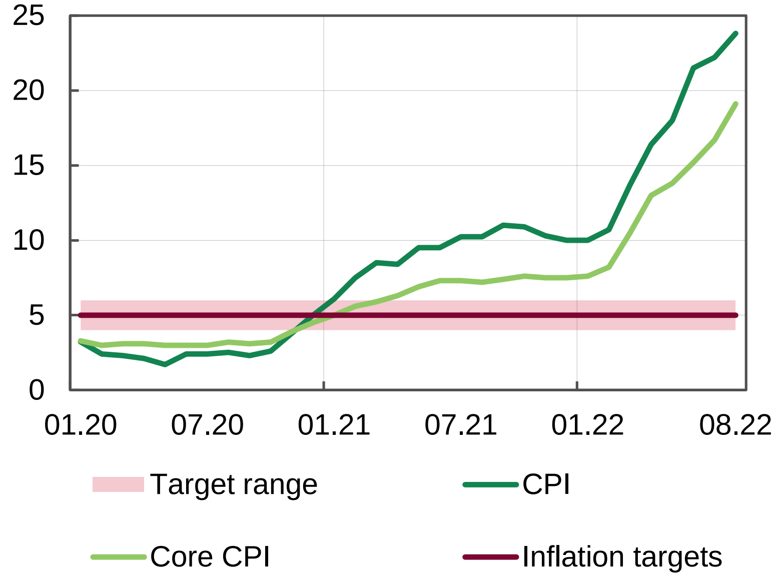
Source: official web pages of central banks.

- The deterioration of economic activity forces some CBs, Czechia's in particular, as well as probably CBs of Poland and Brazil, to consider ending their monetary policy tightening cycles
- At the same time, some CBs continued monetary policy easing: russia (reduced the base rate by 150 bps to 8%), Turkey (unexpectedly cut rate by 100 bps to 13%) and China (further easing is expected despite limited space for stimulus measures)

Ukraine: Inflation

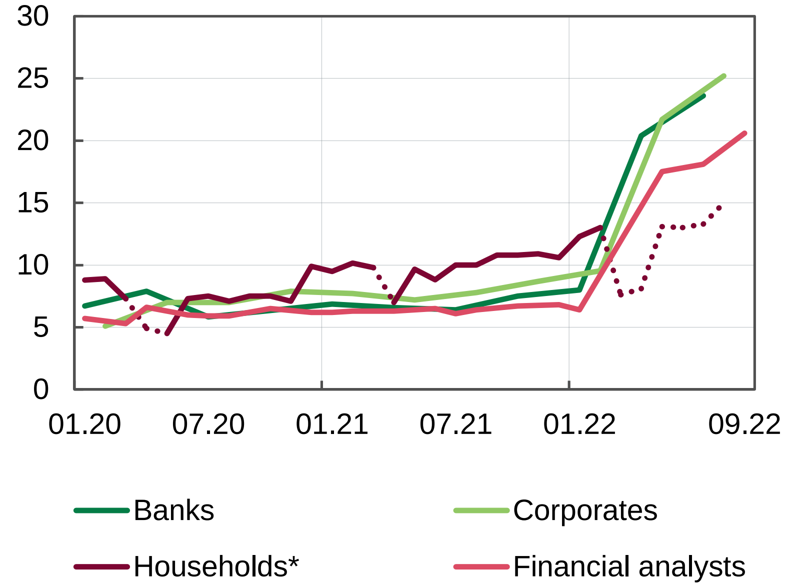
Inflation in Ukraine continues to accelerate...

Inflation* and inflation targets, % yoy



Source: SSSU, NBU staff estimates.

Inflation expectations for the next 12 months,%

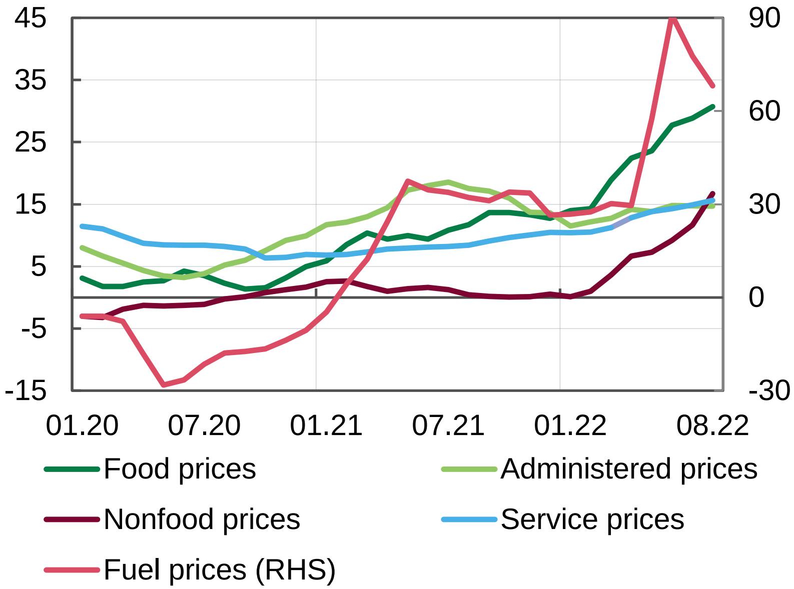


Source: NBU, GfK Ukraine, Info Sapiens.

- The growth in inflation in Ukraine is primarily due to the consequences of russia's terrorist actions and the temporary occupation of certain territories
- The fallout from russia's war against Ukraine includes supply chain disruptions, the destruction of production facilities and infrastructure, the reduction of supply, an increase in production costs, including due to correction of the hryvnia exchange rate, and significant forced migration within Ukraine
- Price growth has been restrained by the fixing of natural gas and heating prices and a partial rerouting of supply chains
- Inflationary expectations continue to deteriorate

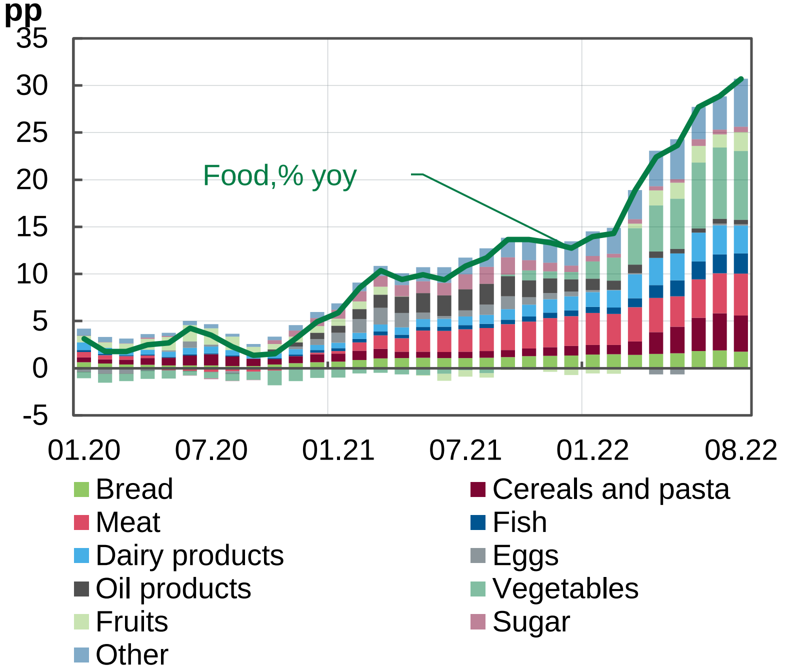
...underpinned mostly by rising production costs

Selected CPI components,% yoy



Source: SSSU, NBU staff estimates.

Contributions to the annual change in food prices, pp

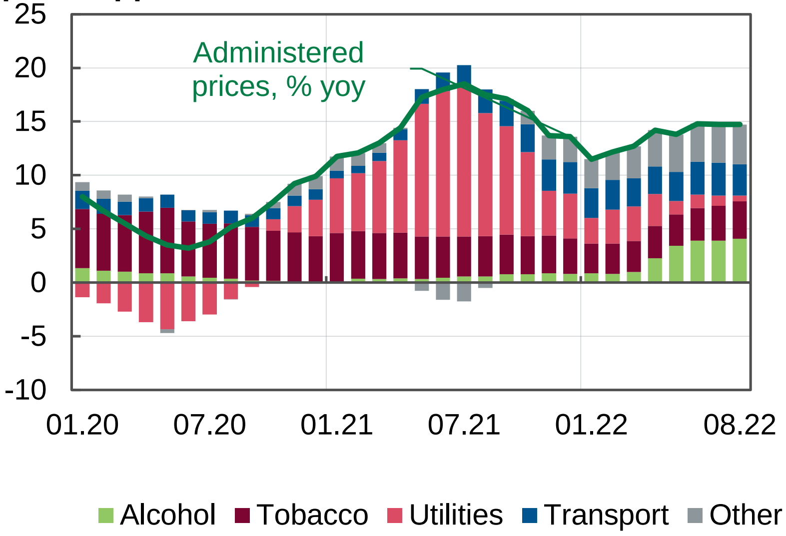


Source: SSSU, NBU staff estimates.

- The correction of the hryvnia exchange rate also had an impact on the inflation acceleration, primarily through the cost of imported goods and components
- A significant contribution to the acceleration of inflation was also made by the increase in the price of certain foods against the background of rising costs for their production and delivery (most processed products) and limited supply (cereals, meat products)
- Instead, inflation was restrained by an increase in the supply of raw products from the households

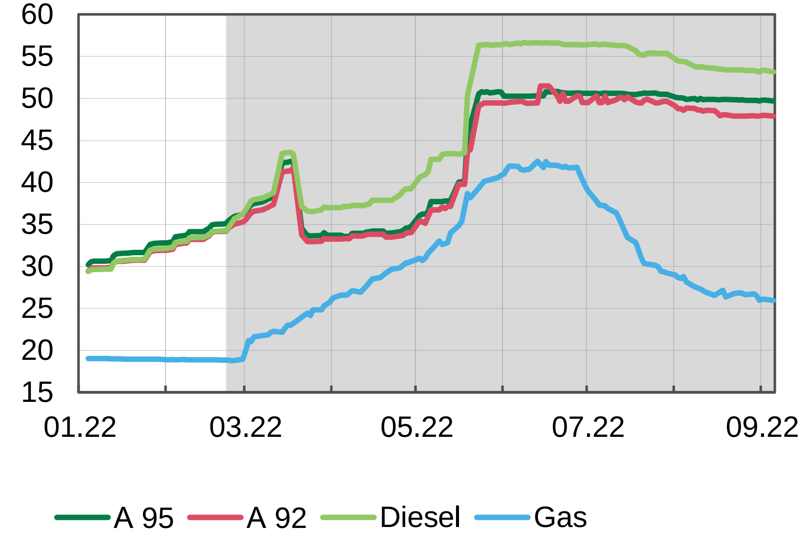
Fixed utility tariffs and lower fuel prices restrain inflation

Contributions to the annual change in administered prices, pp



Source: SSSU, NBU staff estimates.

Fuel prices, UAH / L



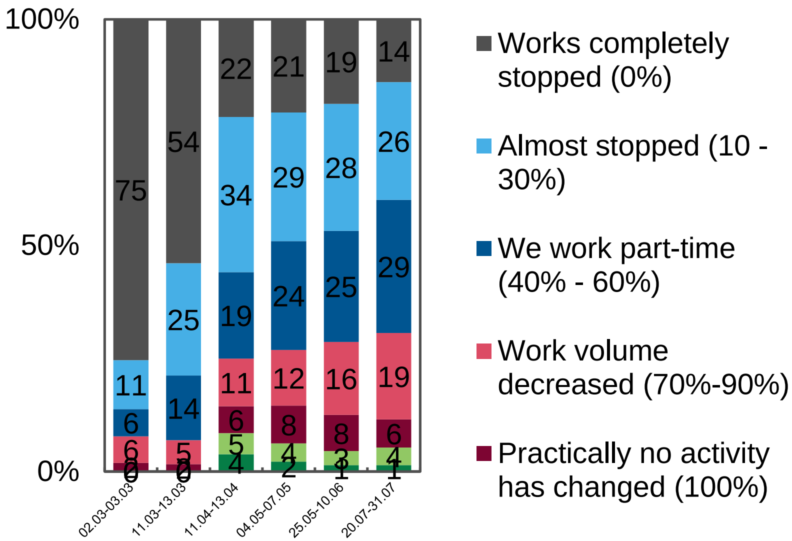
Source: minfin.com.ua, NBU calculations.

- Fuel price growth decelerated rapidly thanks to market saturation, lower oil prices, and normalization of logistics
- Fixing of gas and heat tariffs neutralized the effects of the rapid increase in the price of other components of administrative inflation (alcoholic beverages prices rose on the back of increased demand due to the easing of restrictions on its consumption and shortage of bottles, and transport services grew more expensive amid high fuel prices)

Ukraine: Economic activity

Economy shows signs of stabilization at a lower level

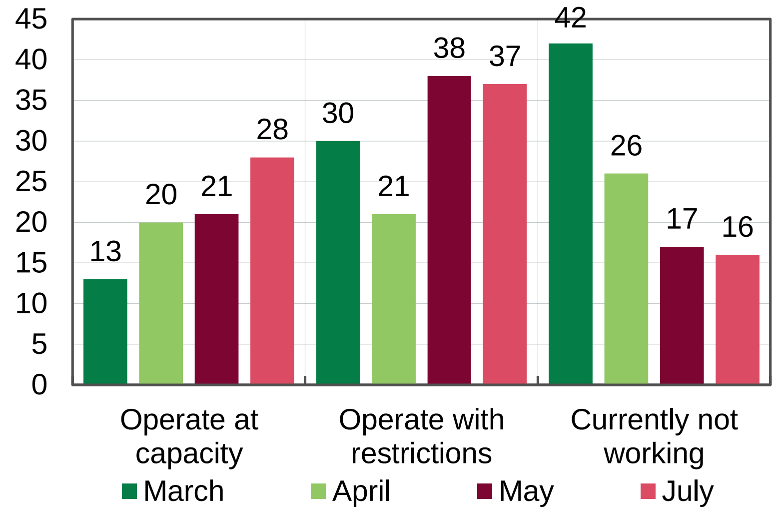
Status of the firm, % of answers



Source: Advanter.

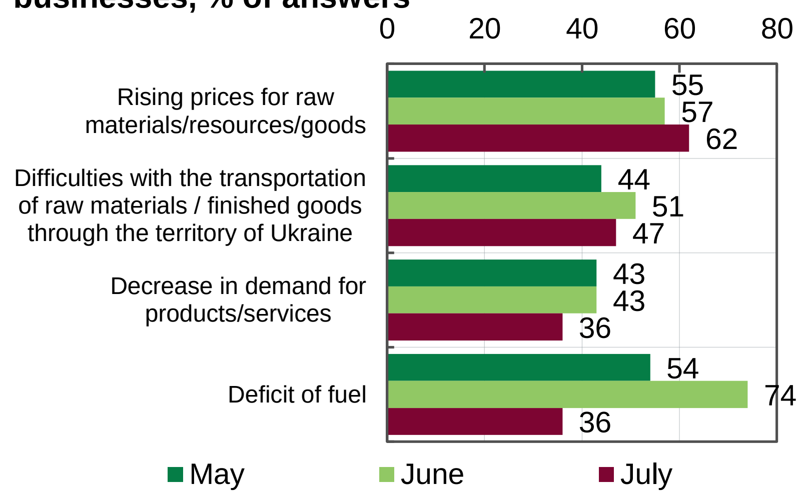
- More than half of enterprises surveyed by Advanter are still operating at or below 60% of their pre-war levels. The results are similar in the EBA, although the situation is better among large enterprises
- According to the IER survey, business optimism in the short term (for 3 months) has slightly improved. However, six-month expectations, while remaining positive, have somewhat deteriorated
- The financial conditions of the business stabilizes, but the growth of production costs impedes recovery. Logistical difficulties remain

Activity of firms, % of answers



Source : EBA.

The most important problems for the surveyed businesses, % of answers



Source : IER.

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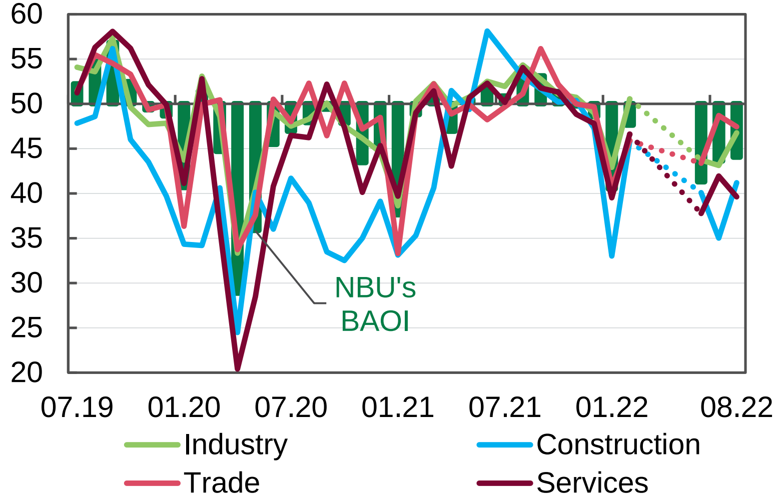
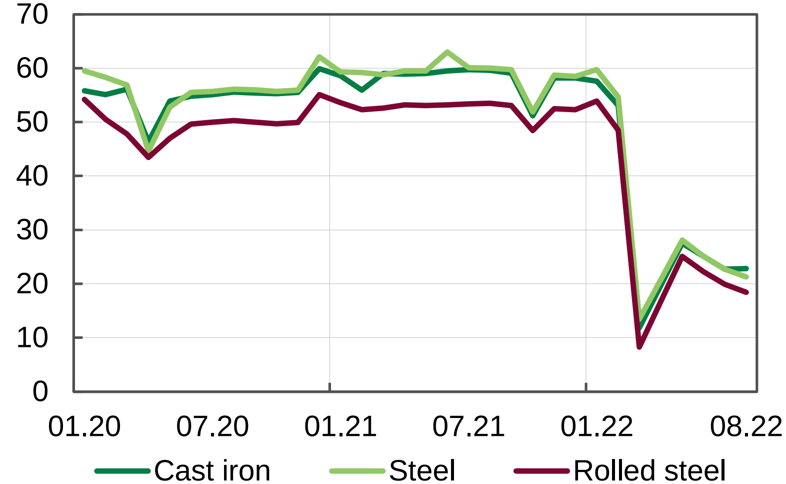
This is evidenced by a number of high-frequency indicators in both manufacturing…

NBU's business activity outlook index (BAOI), p



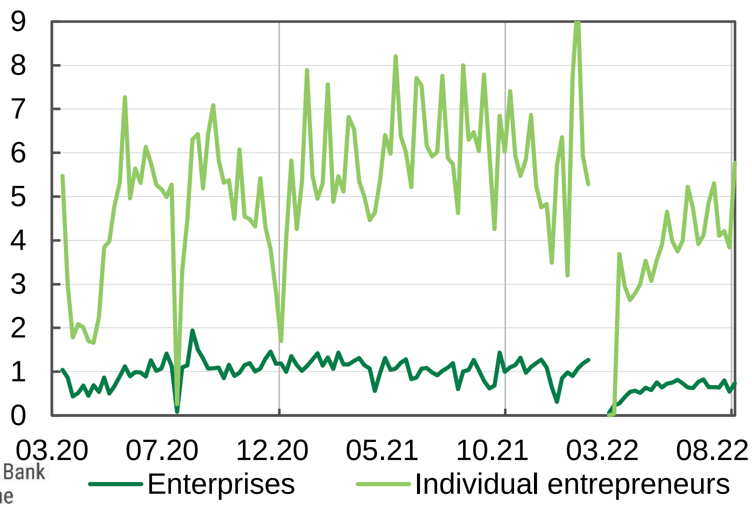
* Survey was not conducted from March to May 2022.
Source: NBU.

Average daily production of steel, cast iron and rolled steel, thousand tons



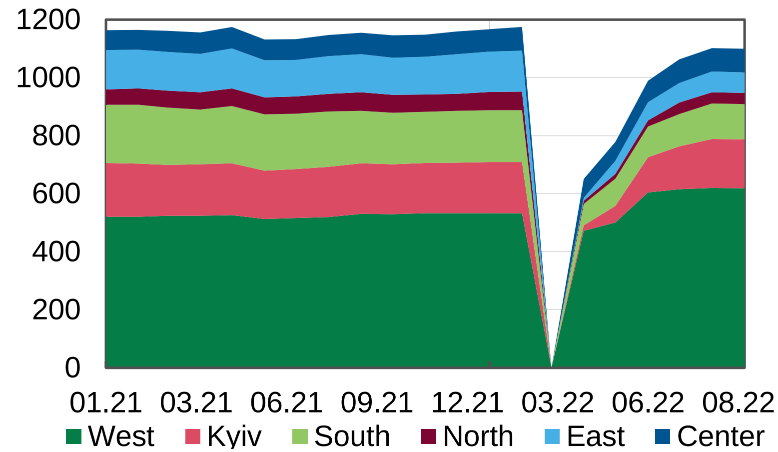
Source: Ukrmetallurgprom.

New business registrations, thousands



Source: opendatabot.ua.

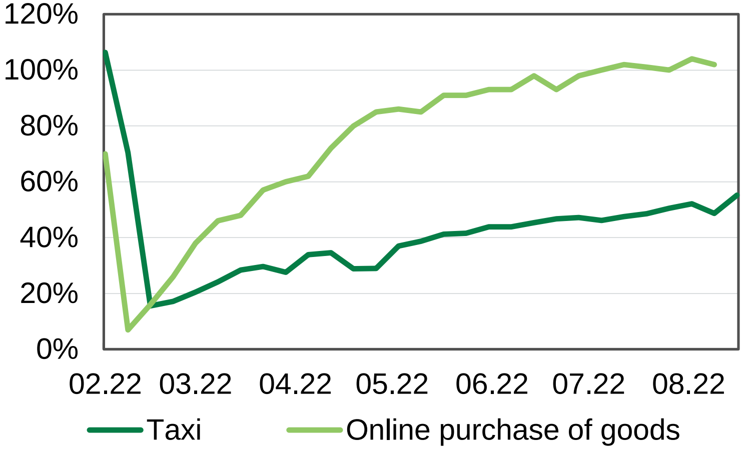
Number of new buildings for sale



* September - as of 4 September 2022.
Source: Lun.City.

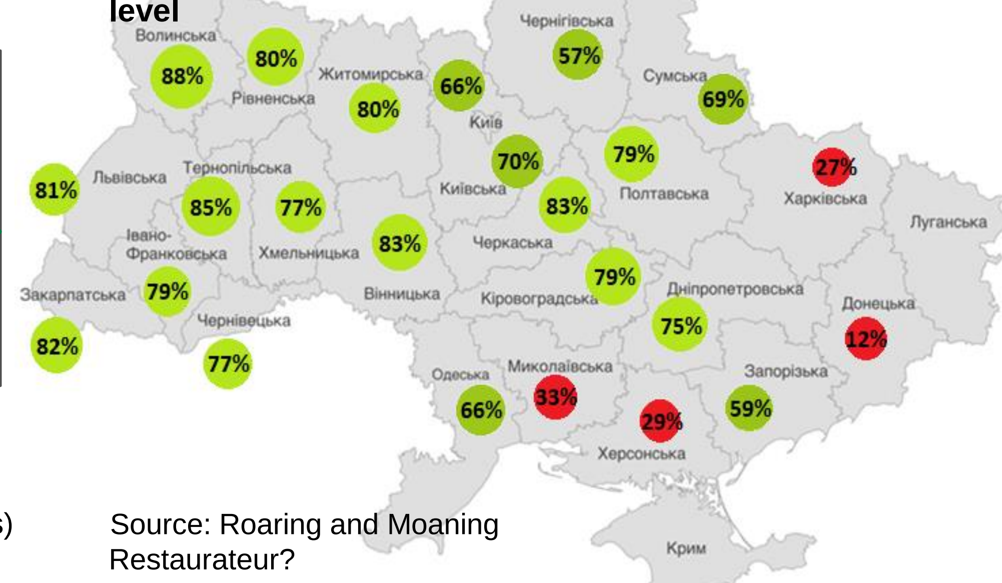
... and service sectors

Indicators of taxi operation and online purchase of goods, % to pre-war level



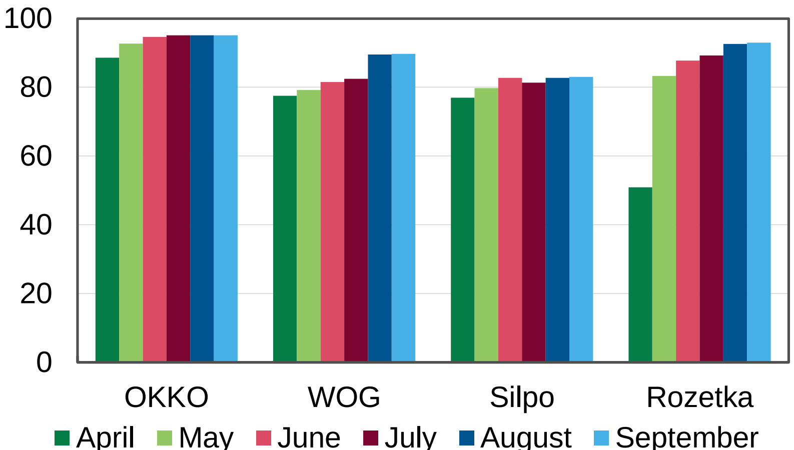
Source: Opendatabot (Bond taxi and Khoroshop services)

The number of working restaurants, % to the pre-war level



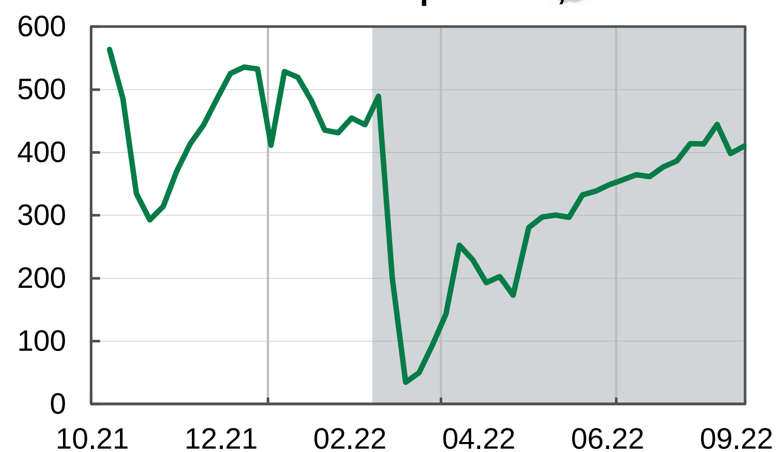
Source: Roaring and Moaning Restaurateur?

Working sales points of selected biggest retail chains in Ukraine, %



Source: chain web sites.

Number of UZ tickets sold per week, thousands



Source: UZ.

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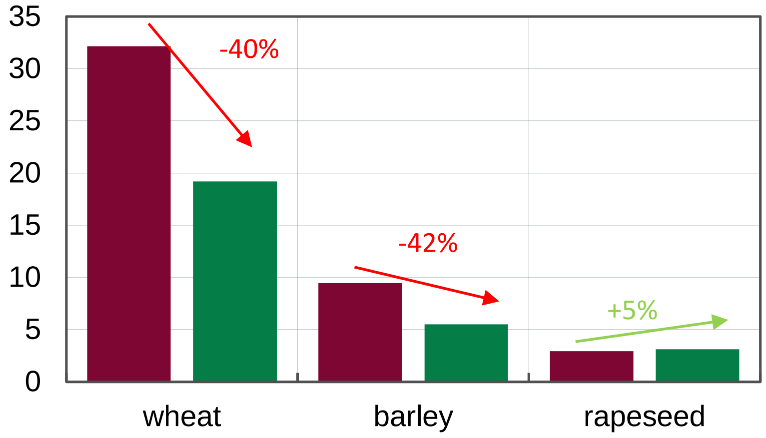
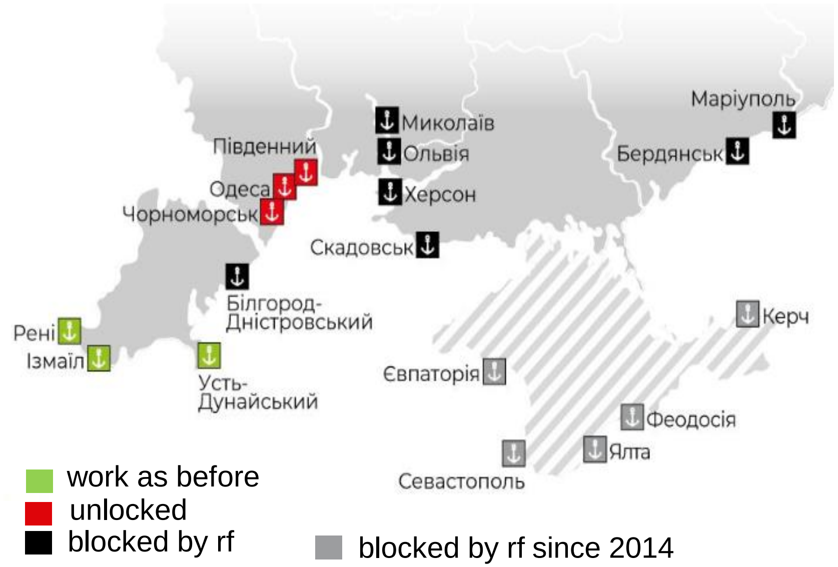
Agriculture and port reopening support economic activity, but the harvest is expectedly significantly lower than last year

Harvest volumes of early crops as of 02.09.22, million tons



Source: MinAgro, NBU calculations.

Status of Ukrainian ports



Source: MinAgro, uawarinfographics.

- Harvesting of early cereals and rapeseed is practically finished. The crop is currently 40% lower than last year, mainly due to smaller harvesting areas, while yields are only 12% lower than last year
- With the new harvest and the opening of sea ports, the volume of grain loading by railway increased (in August by 22% compared to July). The food industry also revived: Ukrainian compound feed plants, which were not subjected to occupation, almost resumed work at the pre-war level. Oil producers have started to launch processing plants, the production of livestock products is becoming more active
- However, a decrease in domestic demand and significant stockpiles are putting pressure on prices and restraining flour production

Logistical problems restrain metallurgy, but revive engineering. The situation in the chemical industry is complicated

Metallurgical enterprises operate at minimum capacities; engineering is supported by orders from metallurgical enterprises, Ukrzaliznytsia and the growing needs of a number of sectors for special vehicles

- In July-August, metallurgical enterprises worked at minimum capacities in anticipation of easing logistical problems and actively repaired equipment
- Orders from metallurgical enterprises, formation of car fleets by the agricultural sector, military orders, new wagons for Ukrzaliznytsia supported engineering

The situation in the chemical industry remains difficult due to high gas prices, reduced demand for fertilizers and capacity destruction; attempts to build up gas production are ongoing

- Since the beginning of August, in the chemical industry and in the production of rubber and plastic products, 49% of the enterprises that were functioning at the beginning of the year have been working with different loading modes
- The main capacities of Ukrainian chemical producers remain at a standstill, in particular due to the large volume of goods in warehouses. In August, the situation improved somewhat due to the resumption of work at Rivneazot (only one fertilizer production plant is currently operating), however, the demand for fertilizers remains 30%-40% lower than before the war, and prices have increased by 10%-15%
- Drilling of new wells to intensify gas production continues. The increase in volumes is restrained due to shelling, as almost 50% of production is in the Kharkiv region

The lack of capacity to store agricultural products and the need to restore destroyed property and infrastructure in the de-occupied regions continue to support construction

- The recovery of residential real estate construction continues to be restrained by low demand for apartments. Developers mostly complete objects with a high stage of readiness
- Instead, the sector is supported by numerous repairs of damaged property in the de-occupied regions and the construction of temporary housing
- Non-residential construction is growing due to the construction of capacities for storing agricultural products, especially in the western regions

UZ continues to increase throughput with the EU. The energy industry is preparing for the heating season

Thanks to the resumption of seaports operation, freight rail transportation increased in August; Ukrzaliznytsia continued to increase throughput with the EU

- Ukrzaliznytsia continued to increase throughput with the EU:
  - two two border crossings were opened on the border with Romania;
  - the number of trolleys for transferring rolling stock to the eurotrack has increased almost 10 times since the beginning of the war;
  - Ukraine and Moldova established an alternative railway route to connect Odessa and the Danube ports;
  - a new logistics hub with wide and narrow tracks for the transshipment of grain and oil began operating at the Chop railway station

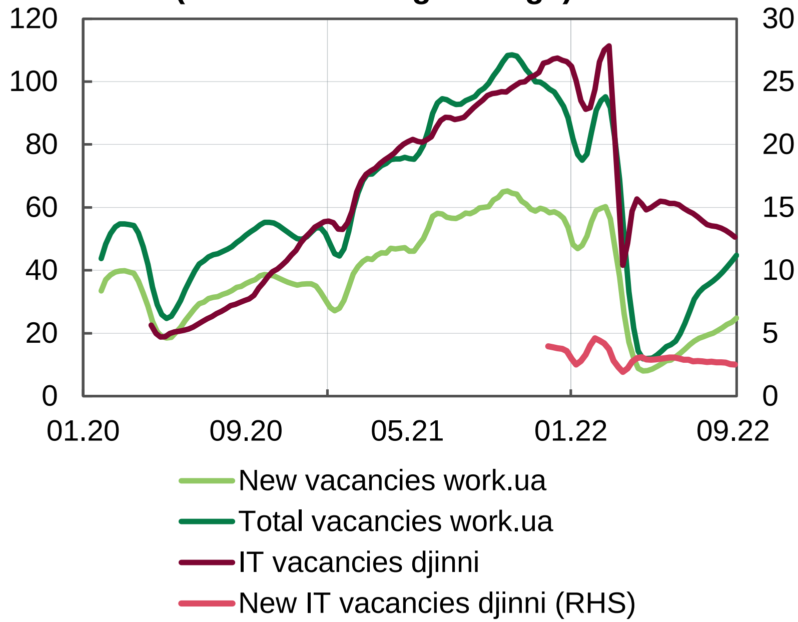
Preparation for the heating season continues in the energy industry; nuclear generation works in 10 units out of 15 available; revenues from electricity exports are growing, work on expanding export capacities continues

- In August, the Ukrainian energy system worked stably and produced electricity with a surplus; Ukrenergo's revenues from the sale of the interstate crossing for the export of electricity to Romania and Slovakia are increasing (from 30 June to 21 August, they amounted to about UAH 1.9 billion)
- Ukrainian and Polish operators are restoring another interstate power transmission line to increase the possibility of exporting electricity to Poland (from 215 to 1,000 MW)
- As of the beginning of August, Energoatom was operating 10 units out of 15 available; after shutting down and restarting the power units of the ZNPP, 9 power units out of 15 were in operation; hydroelectricity production decreased due to shallow water

Ukraine: Labor market

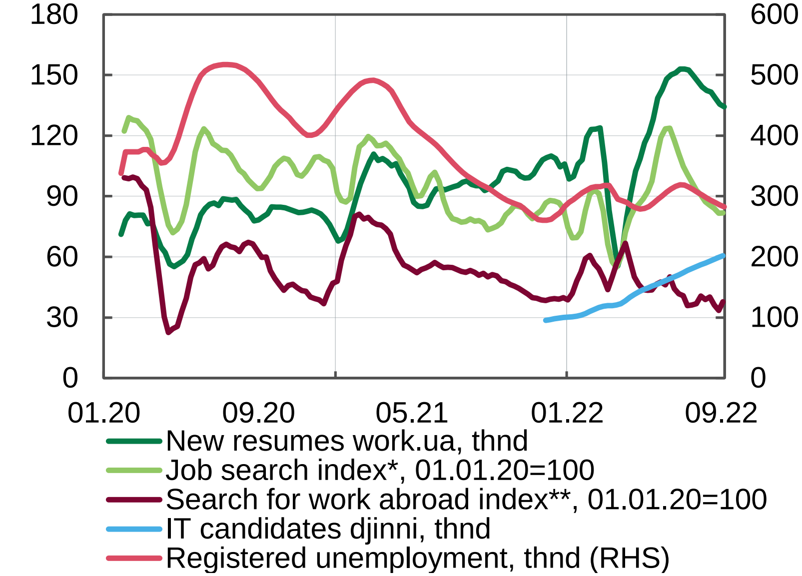
Activation of seasonal work revived the labor market, but...

Demand for labor force: number of vacancies, thousands (4-weeks moving average)



Source: work.ua, Opendatabot, NBU staff estimates.

Labor force supply (4-weeks moving average)

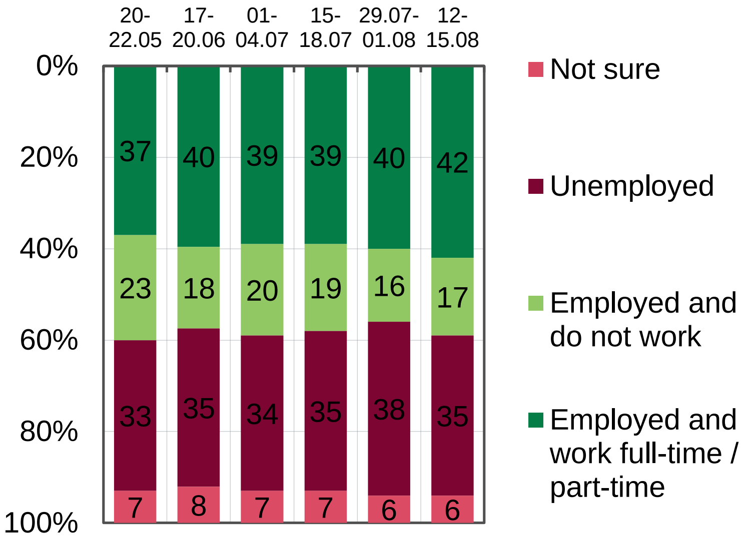


* Includes job search queries in Ukrainian and Russian. ** Includes job search requests in Poland, the Czech Republic, Russia and Germany in Ukrainian and Russian from Ukraine.
Source: work.ua, Opendatabot, Google Trends, NBU staff estimates.

- Resume growth has slowed, while vacancies continue to increase, although they still lag behind job demand. An important role is probably played by seasonal work – agriculture, construction, etc.
- The number of vacancies in the IT sector is declining, while the number of their resumes is steadily increasing. The decrease in vacancies may be related to the relocation of employers abroad (according to the survey, 42% of IT firms have fully or partially relocated abroad)
- According to the grc.ua website, Kyiv is leading the recovery in terms of the number of vacancies in retail and other sectors
- 80% of job-seeking respondents surveyed by Gradus are willing to work outside of their specialty

… structural shift on the labor market continue to put downward pressure on wages in private sector

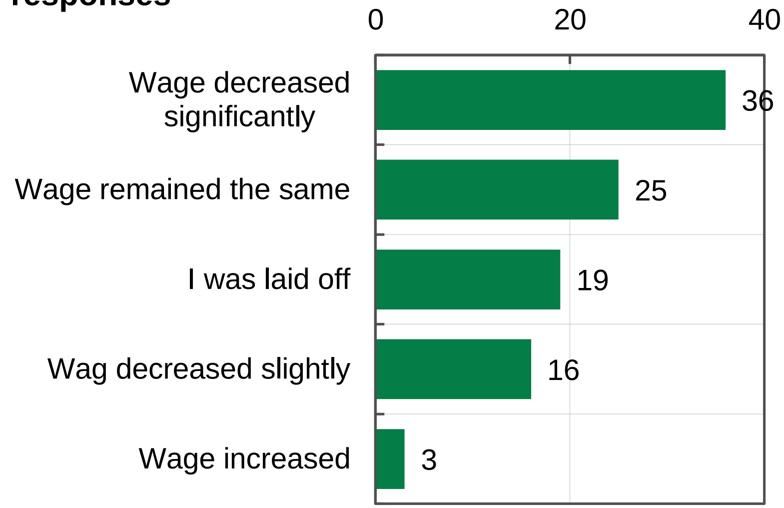
Employment, % of responses



Source: Gradus.

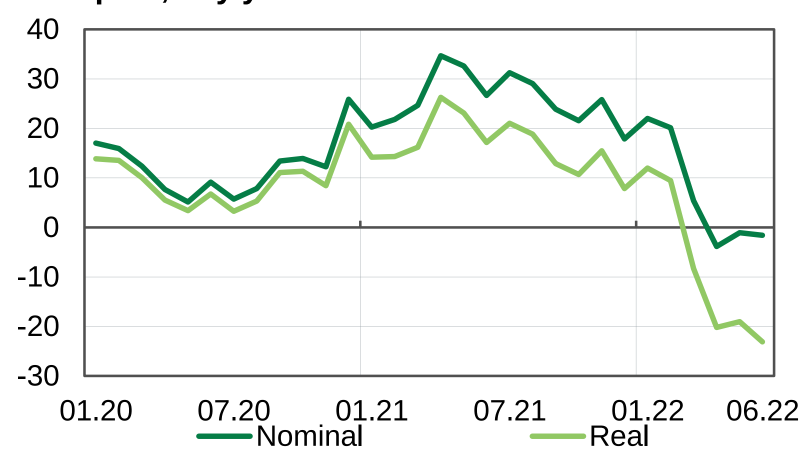
- According to surveys by Work.ua and Rating Group, since the start of the full-scale invasion, 30%-40% of workers have lost their jobs, wages have decreased for 40-50% of workers
- However, the reduction in nominal wages has probably stabilized: according to the grc.ua website, in August, wages in most professions did not decrease, and this is also evidenced by an indirect assessment of average nominal wages based on the payment of the SSC. Instead, the reduction in real wages continues due to the acceleration of inflation

Impact of the war on the respondent's wage, % of responses



Source : Work.ua

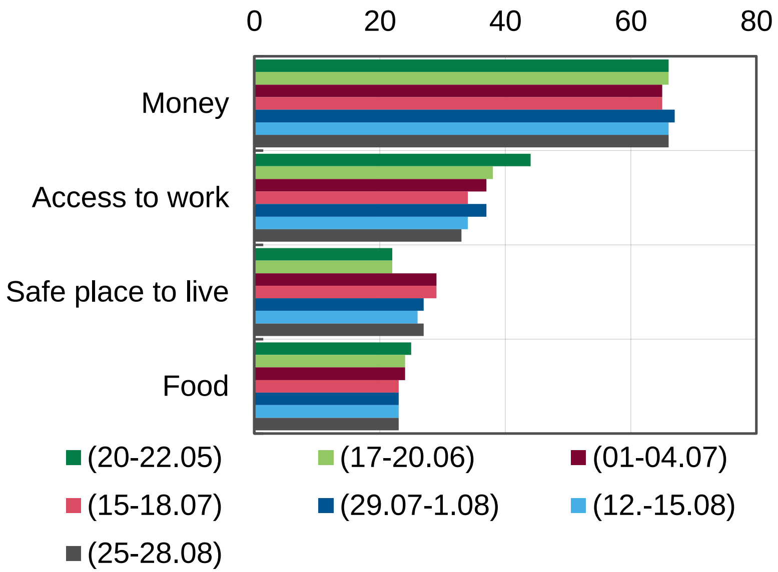
Average wage in Ukraine, from which insurance fees were paid, % y/y



Source : PFU, SSSU, NBU staff estimates.

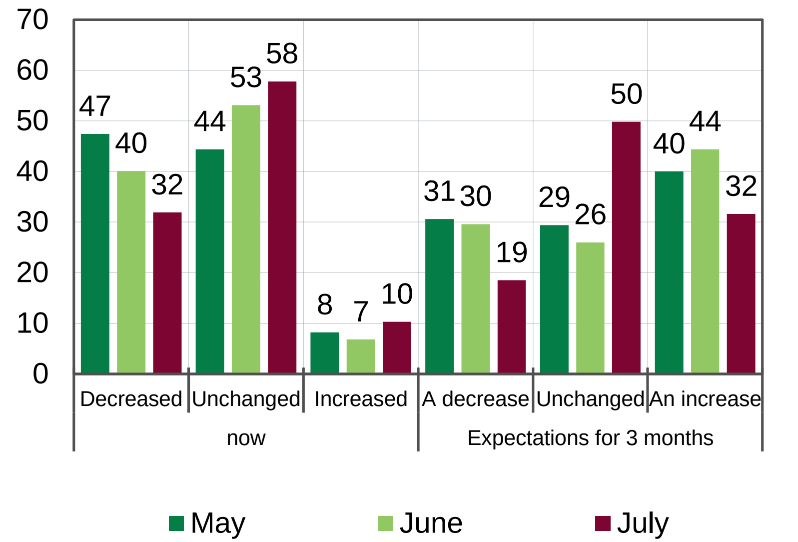
As a result, lack of money and work, as well as security risks, remain the main problems for the households

The rating of things that respondents feel the greatest need for, % of responses



Source: Gradus.

Current situation and expected changes in the number of employees, % of responses

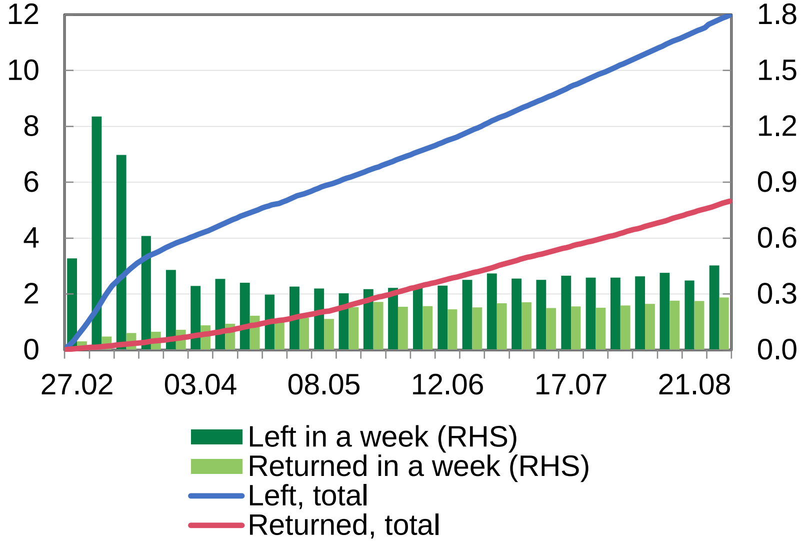


Source: IER.

- According to the Gradus survey, access to work is the second most important problem facing respondents after lack of money
- At the same time, the business is faced with rising costs and falling demand, and therefore is quite cautious about hiring additional labor. According to the IER survey, in July only 15.6% of companies expect an increase in their staff in the next 3 months (in June it was 17.4%), while the majority (79.1%) do not expect any change

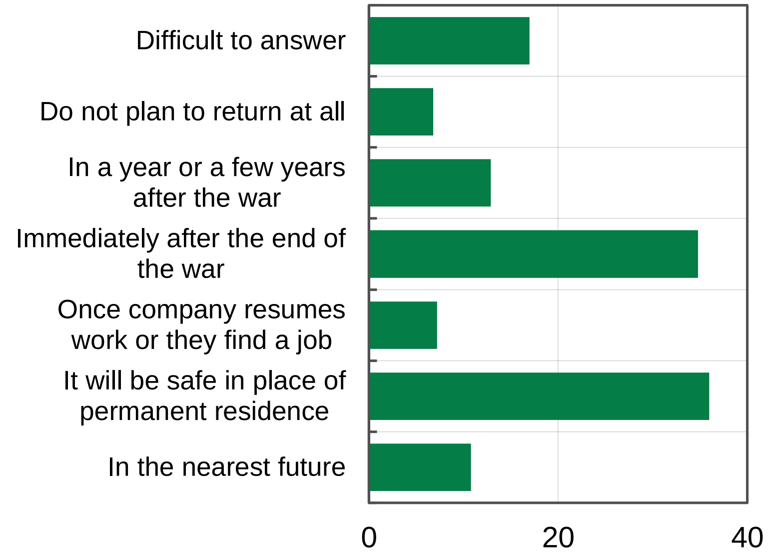
The flow of refugees from Ukraine remains stable. A lot of Ukrainians remain abroad

The number of Ukrainians crossing the border from and into Ukraine, millions



Source: UNHCR.

Plans to return to Ukraine, % of responses



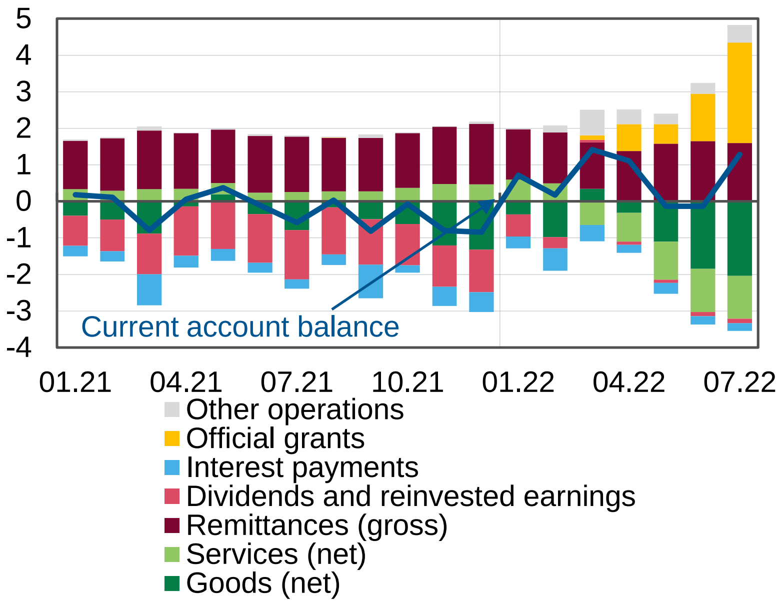
Source: The Razumkov Centre survey.

- According to the UN, as of end-August, the number of refugees from Ukraine who remain in Europe is almost 7 million persons, of which almost 4 million have received the status of Temporary Protection
- The vast majority of those who left, according to Razumkov's Center survey, are women (93%) with children (74%) of the most productive age of 30-50 years (71%), who left in March (65%). Received temporary protection (82%). The main problems are not knowing the language (65%) and financial problems (43%), but only 11% plan to return to Ukraine in the near future. Safety risk is an important impediment for the return
- According to the IOM, after the previous slight decrease in the total number of IDPs in Ukraine, this number increased again to almost 7 million people (23.07.2022), 44% of IDPs do not have an income

Ukraine: Balance of Payments

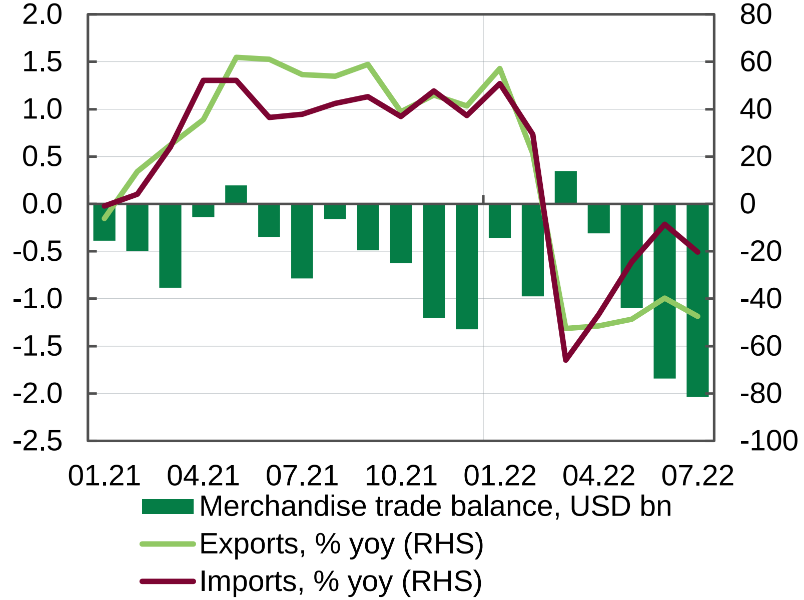
In July, despite the widening of the merchandise trade deficit, the current account returned to surplus due to grants received

Current account balance, USD bn



Source: NBU staff calculations.

Merchandise trade

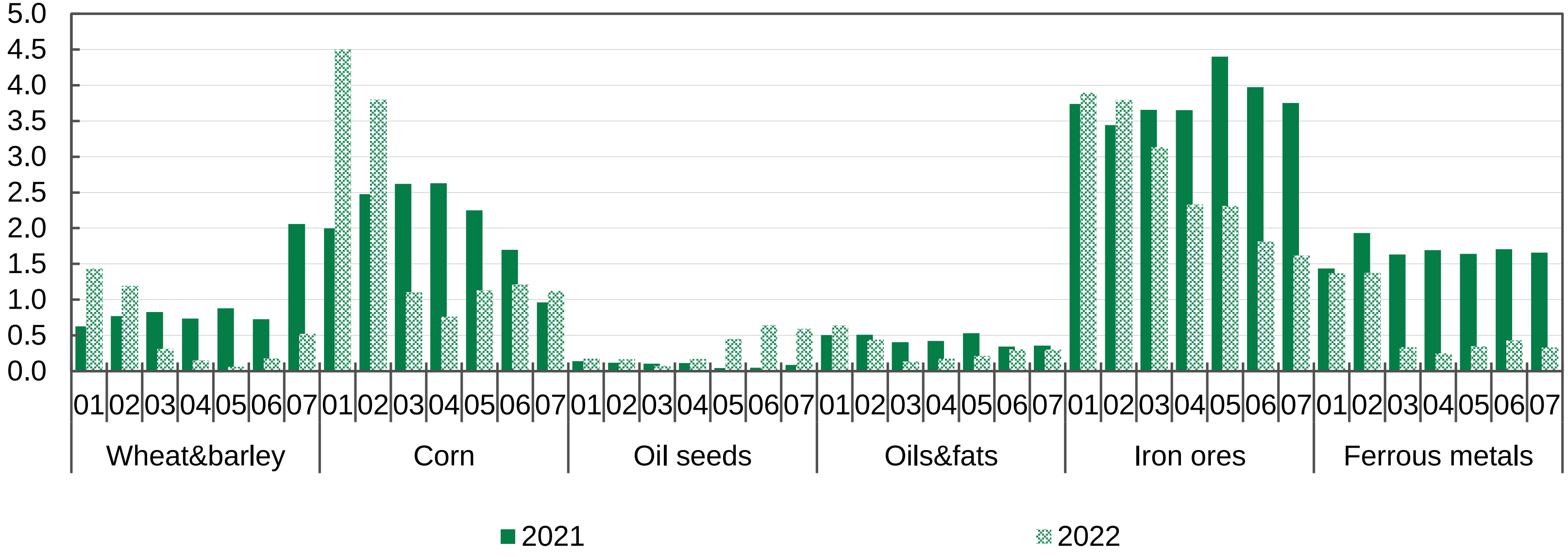


Source: NBU.

- Decline in imports deepened as preferential taxation has been abolished, and lower supplies of iron ores and metals accelerated the fall in exports of goods. In values imports remained almost at the level of June, while exports decreased. Therefore, the merchandise trade deficit continued to widen
- However, substantial disbursements of official grants from Germany and the USA ensured a higher surplus of the secondary income account, and thus – a return of the current account balance to positive values

Weakened external demand for iron ores and metals was behind the deeper decline in exports of goods

Exports of goods, m t

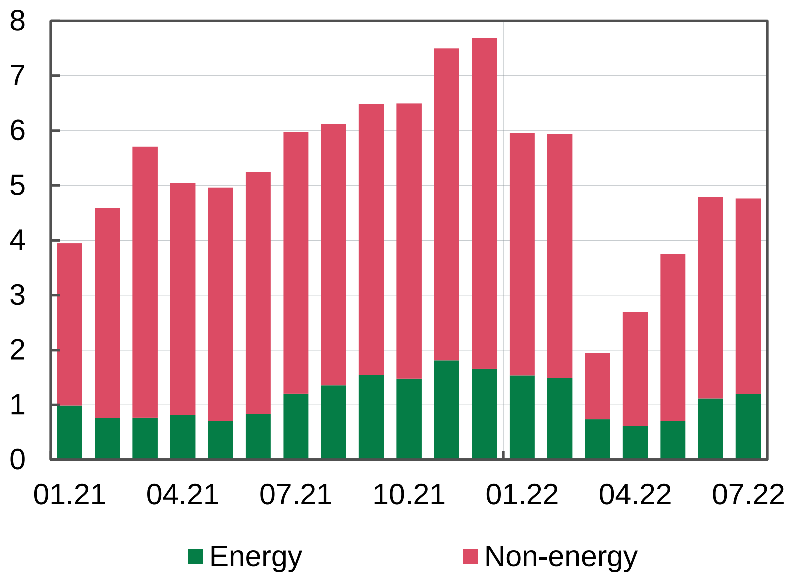


Source: SCSU.

- In July, exports of iron ores and ferrous metals decreased compared to previous months due to a reduction in production volumes, which was caused both, by persisting logistical difficulties and a significant increase in the prices for it, as well as the weakening external demand
- However, an increase in supplies of food products resumed as logistical adjustments on the western border continued, and shipments of wheat, barley, and rapeseed of the new crop intensified. Yet, since global prices dropped below the pre-full-scale-war levels, this neutralized the growth in volumes. As a result, the value of food exports remained at the level of June

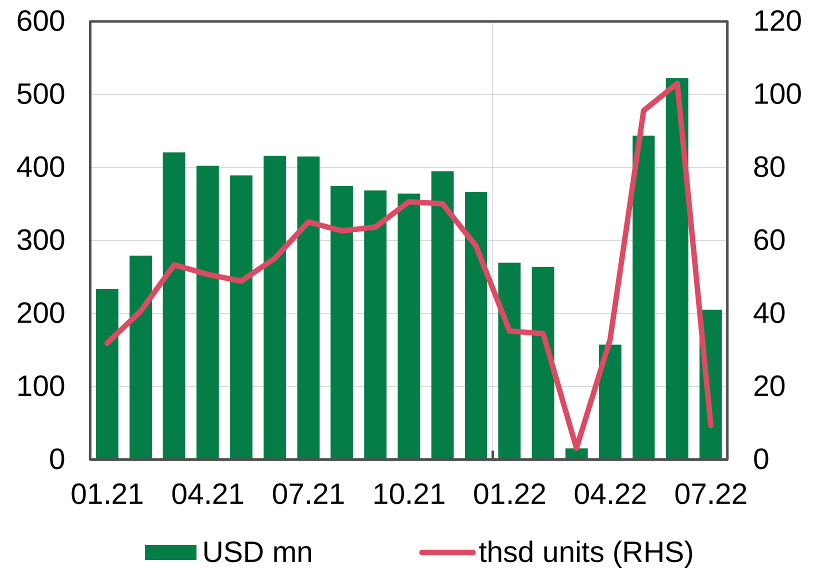
The abolition of preferential taxation, ER correction and marginal volumes of natural gas imports put the breaks on import growth

Imports of goods, USD bn



Source: NBU staff calculations.

Imports of motor cars

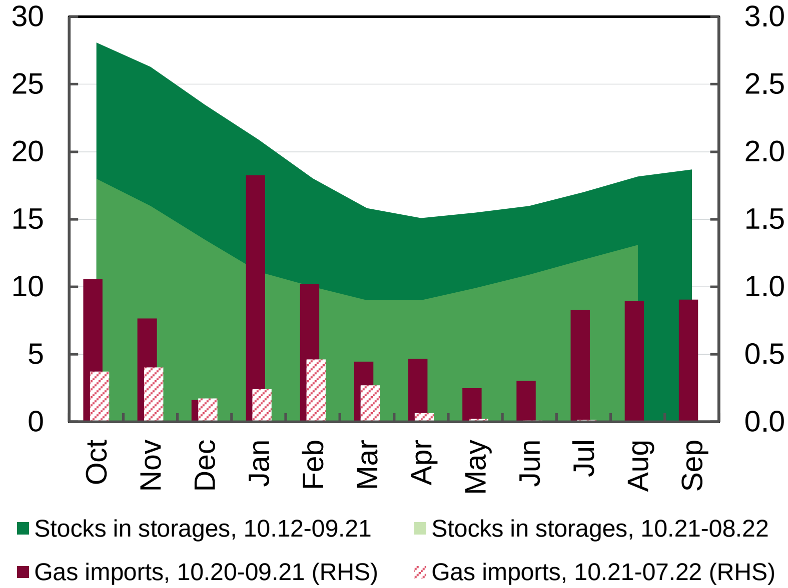


Source: SCSU, NBU.

- The abolition of preferential taxation of the imports of goods and the correction of hryvnia's official exchange rate by 25% were reflected mainly in the purchases of vehicles, in particular motor cars. In addition, the imports of certain consumer goods decreased slightly
- Energy imports grew as a result of both price increases and an increase in purchases of energy products, yet it was held back by virtually absent gas imports

As the prices significantly increased and Naftogaz lacks funds, natural gas imports were marginal

Natural gas imports and stocks, bcm



Source: EXPRO Consulting, GTSOU, NBU.

Natural gas imports and stocks

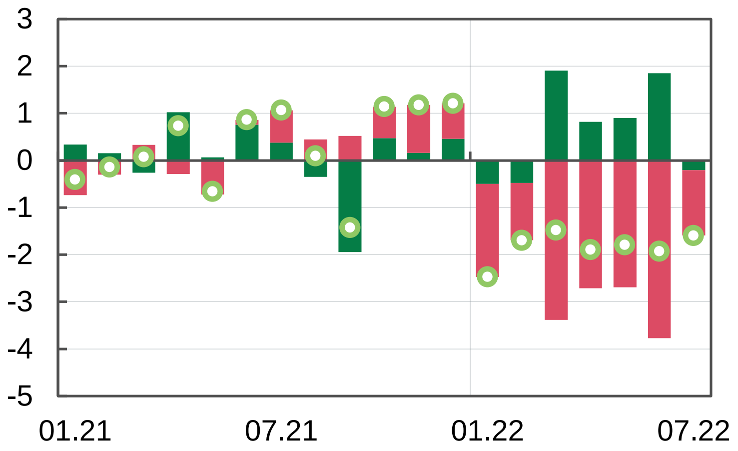
	Imports				Prices, USD/ths m3	Stocks in storages	
	bcm	bcm, cumulative	yoy %	pop %		bcm	yoy %
I.20	3.0	3.0	80.3	80.3	164.5	15.8	80.2
II.20	1.1	4.1	-72.6	-28.2	97.5	19.9	47.2
III.20	1.5	5.7	-74.4	-51.7	146.9	27.9	36.2
IV.20	2.0	7.6	-24.9	-46.8	204.5	23.5	24.1
I.21	3.3	3.3	9.1	9.1	237.7	15.8	0.1
II.21	1.0	4.3	-9.0	4.2	281.2	16.0	-19.8
III.21	2.6	6.9	72.3	22.5	512.4	18.7	-33.0
IV.21	0.9	7.9	-52.2	3.1	1047.2	13.5	-42.6
I.22	1.0	1.0	-70.3	-70.3	1030.8	9.0	-43.1
II.22	0.1	1.1	-90.6	-74.1	954.0	10.9	-31.9
07.22	0.01	1.1	-98.2	-78.8	1033.8	12.0	-29.4

Source: EXPRO Consulting, GTSOU, NBU.

- Natural gas imports in Q2 were marginal on the back of a surge in import prices on the European market, provoked by the artificially created deficit by the russian rederation and a lack of funds in wartime conditions
- As of the end of August, 13.1 bcm were accumulated in underground gas storage. According to expert estimates, Ukraine must additionally import 1.5-3 bcm of gas in order to go through the next heating season comfortably. In the current conditions, achieving this requires strong political and financial support from foreign partners

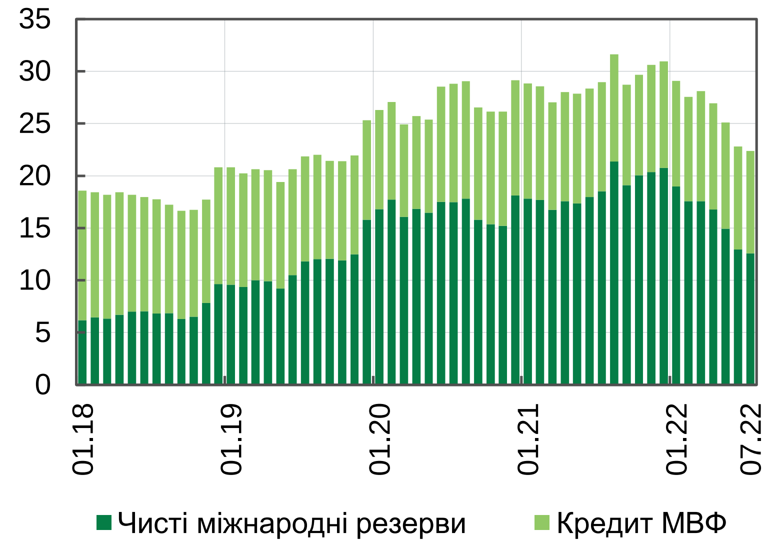
Lower outflows from private sector along with grants disbursement set back the decline in reserves

Financial account: net external liabilities, USD bn



* Including net errors and omissions.
Source: NBU.

Gross international reserves, USD bn

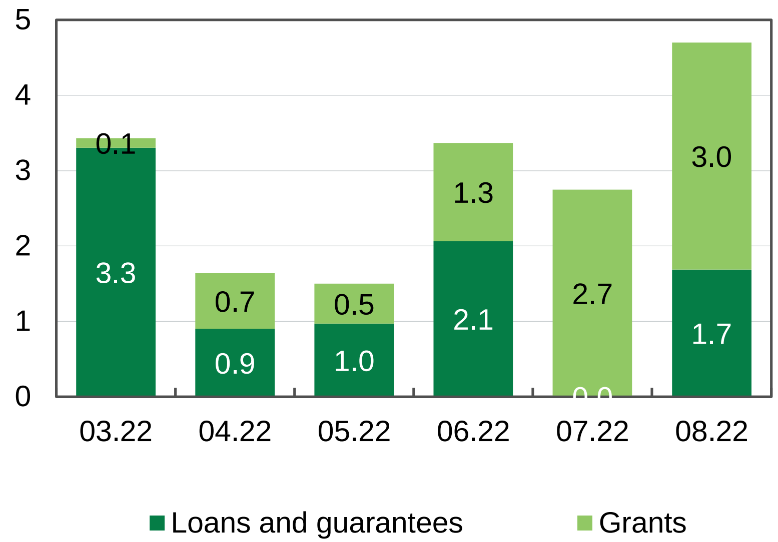


Source: NBU.

- A decrease in non-resident liabilities under trade loans contributed to decreasing in capital outflows from the private account
- Meanwhile, for the first time since the beginning of the full-scale war, the public sector recorded an outflow of capital since international financial aid came exclusively in the form of grants
- As the overall deficit of the balance of payments narrowed substantially, gross international reserves decreased by only 2% in July – to USD 22.4 bn

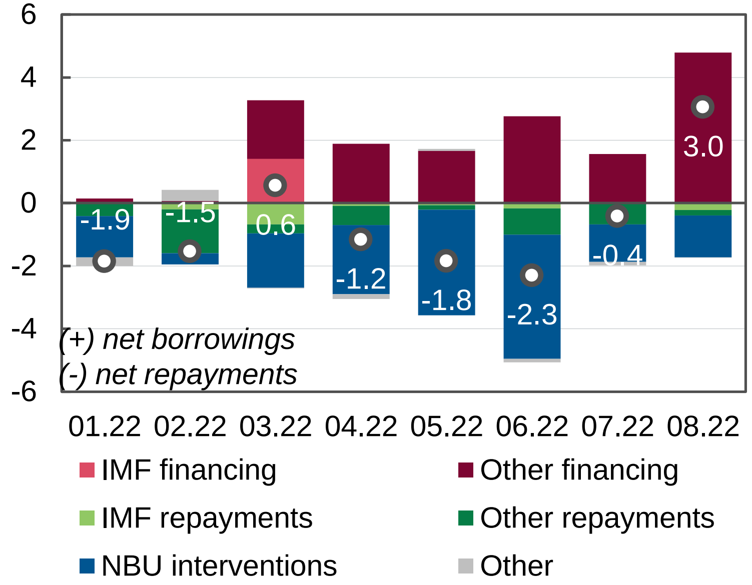
International financial support remained a significant source of international reserves support

International financial assistance by instruments, USD bn



Source: NBU, MoFU, open sources data.

Change in reserves in 2022, USD bn



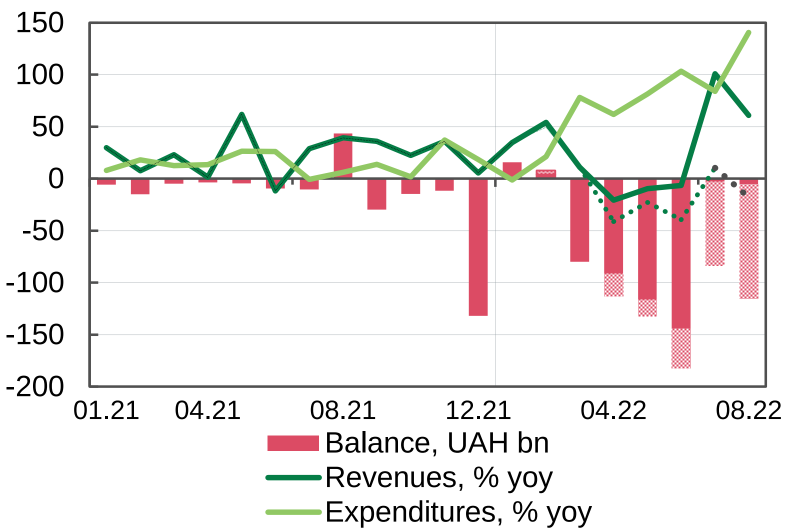
Source: NBU.

- In August, the amount of assistance increased significantly (up to USD 4.7 bn), as Ukraine received a USD 3 bn grant from the United States. As of September 6, the total international financial support exceeded USD 17 bn
- As a result, gross international reserves increased to USD 25.4 bn in August, which covers 4 months of future imports

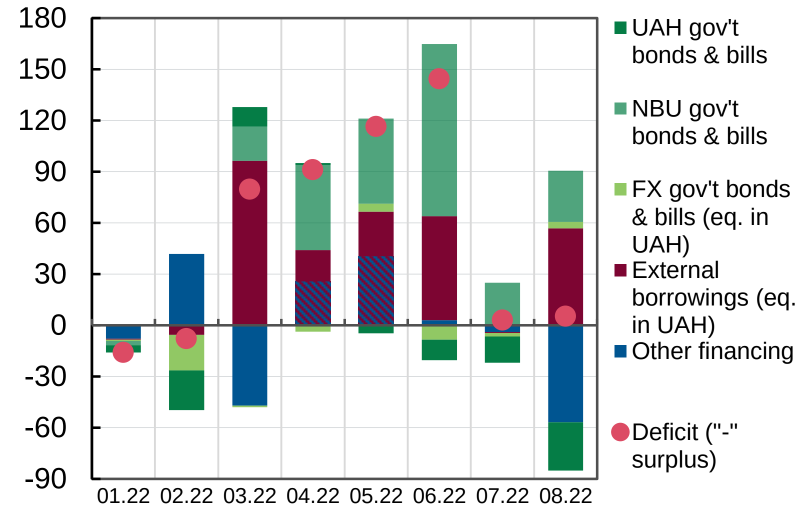
Ukraine: Fiscal sector

In July-August budget performance improved slightly

Main State budget indicators*



State budget balance financing, UAH bn**

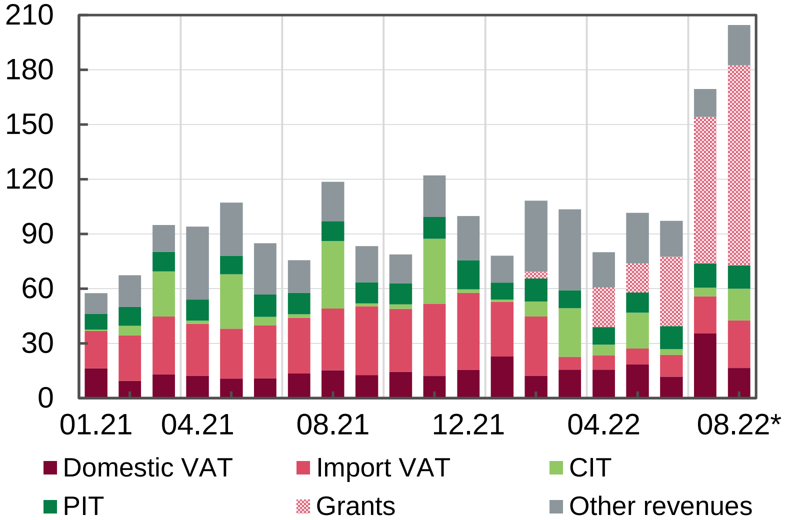


* Dotted and patterned fillings show relevant indicators excluding grants. August - high-frequency data from the MFU website.
** Debt transactions are net borrowings. NBU calculations based on the MoF's website information.
Source: Treasury, MoF, openbudget.gov.ua, NBU staff estimates.

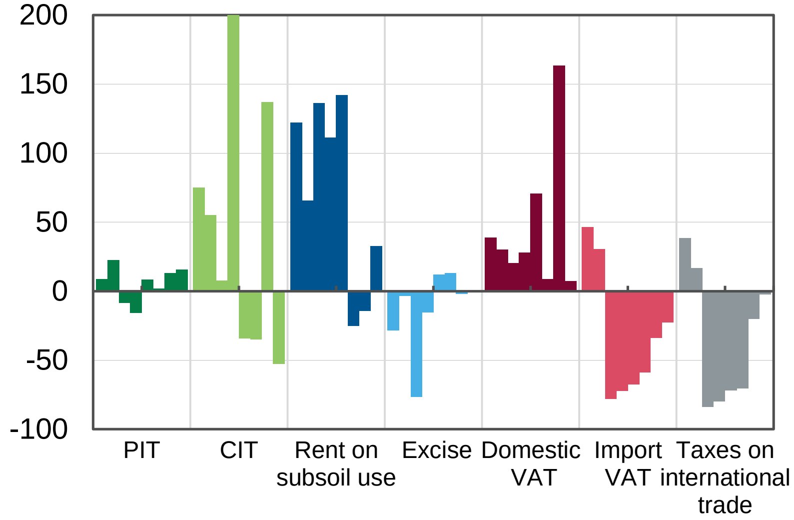
- After the deficit had widen for a longtime, in July-August it decreased, even without taking into account the grants. Although since the beginning of the year, the negative balance remains unprecedentedly sizable – more than UAH 416 bn
- The narrowing of the deficit became possible due to the higher tax revenues, in particular, after the previously granted tax preferences for imports of goods have been abolished in July. Also, significant grant funds (more than USD 5.7 billion) were received in July-August
- The state budget deficit continued to be mainly covered by international and monetary financing. The NBU's monthly purchase of war bonds in July-August remained within the agreed volumes – UAH 30 bn per month, which eased pressures in the FX market
- Simultaneously, the rollover for domestic market gov't bonds in the national currency continued to decrease

Higher tax collections reflected the narrowing of tax preferences introduced at the beginning of the war

Revenues of the state budget's general fund, UAH bn



Growth in tax revenues of the state budget's general fund in 2022, monthly*, % yoy

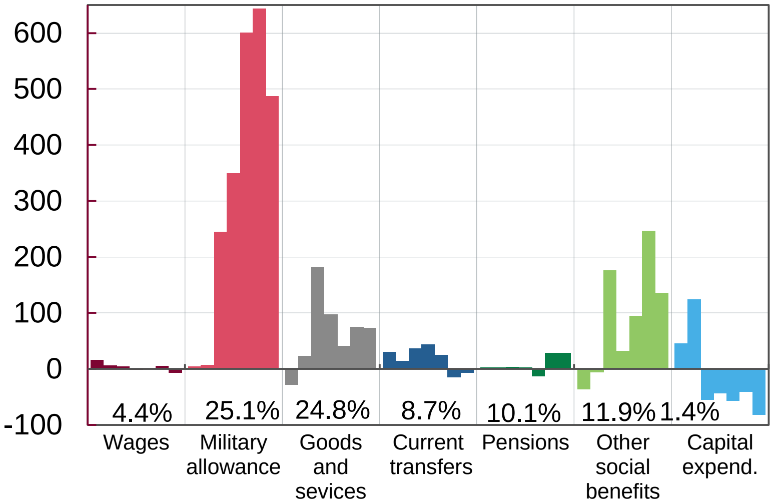


*Operative data from the MFU website.
Source: Treasury, MoF, openbudget.gov.ua, NBU staff estimates.

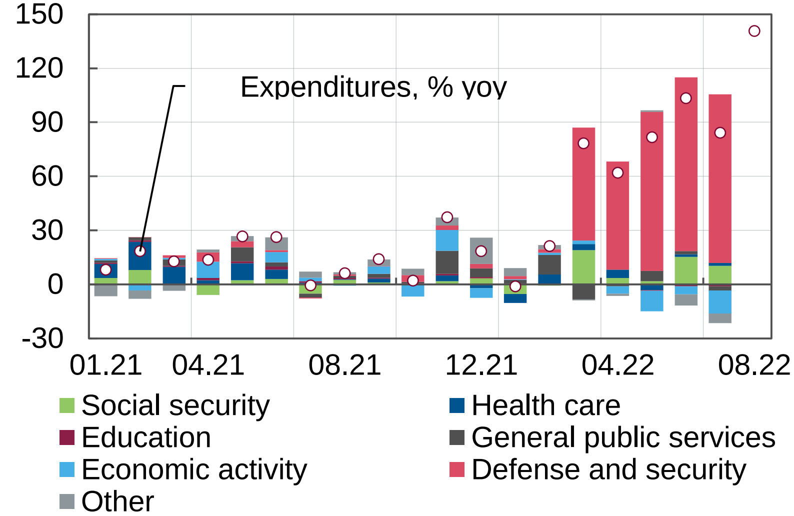
- Decline in collections from imported goods has slowed down, especially under VAT and taxes on international trade, since tax preferences for the import goods were abolished. The hryvnia exchange rate correction, and import volumes stabilization at a certain level also supported proceeds from imported goods
- However, domestic taxes remain the key source of the budget revenues despite their reduction in August, which was mainly driven by the lower CIT proceeds. The latter reflects the considerable contraction of the economy in Q2. While the significant increase in July reflects larger receipts in view of the upcoming deadline for tax payments (no later than 31.07.2022)

Expenditures continued to grow at a rapid pace

Growth in expenditures of the state budget in 2022, % yoy



Contributions to annual changes in expenditures of the state budget, pp



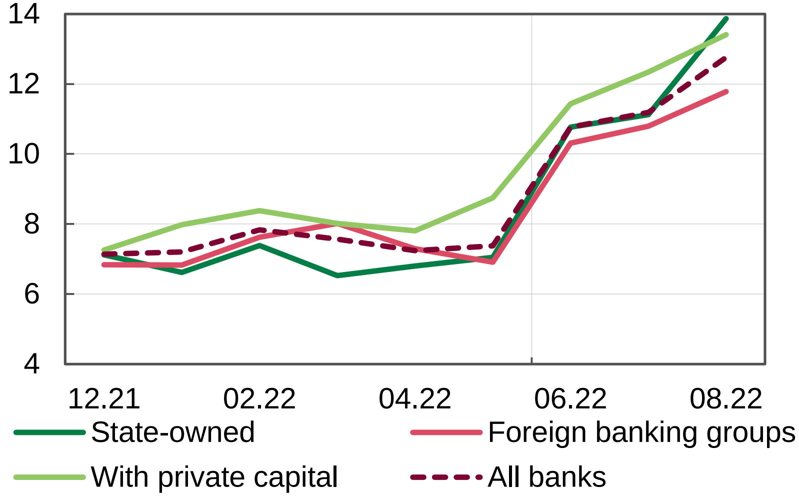
Source: Treasury, MoF, openbudget.gov.ua, NBU staff calculations.

- Increase in expenditures in August significantly accelerated, which may be due to the likely growth and catch-up in defense expenses, and social programs
- Security and defense sector, social support, as well as healthcare remain the key directions for expenditures

Ukraine: Monetary sector

Market rates continue to increase in a response to the NBU`s June decision

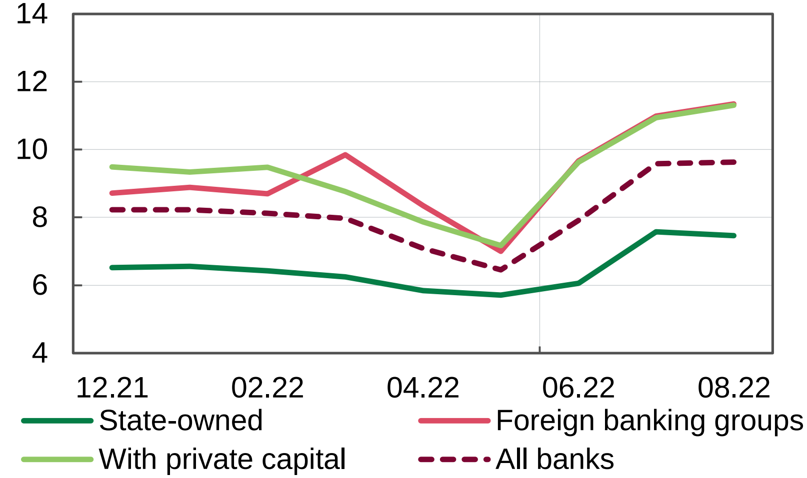
Weighted average hryvnia interest rates on deposits of NFC with a term of more than 1 month, %



Source: NBU.

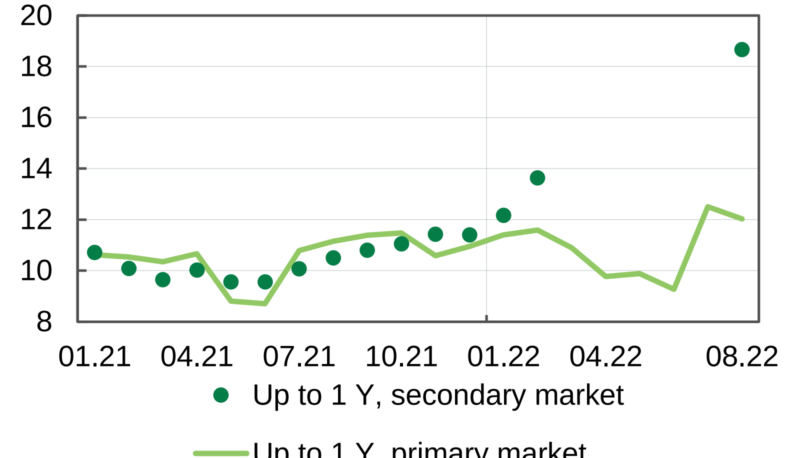
- However, the uneven distribution of liquidity, a large part of which is concentrated in banks with the biggest volumes of individuals` deposits, holds monetary transmission back due to a lack of incentives to attract new funds
- At the same time, banks use price incentives to retain corporate clients
- After secondary market reopening, the response of yields on hryvnia domestic government debt securities was more pronounced, and they significantly exceeded the yields on the primary market

Weighted average hryvnia interest rates on term deposits of individuals, %



Source: NBU.

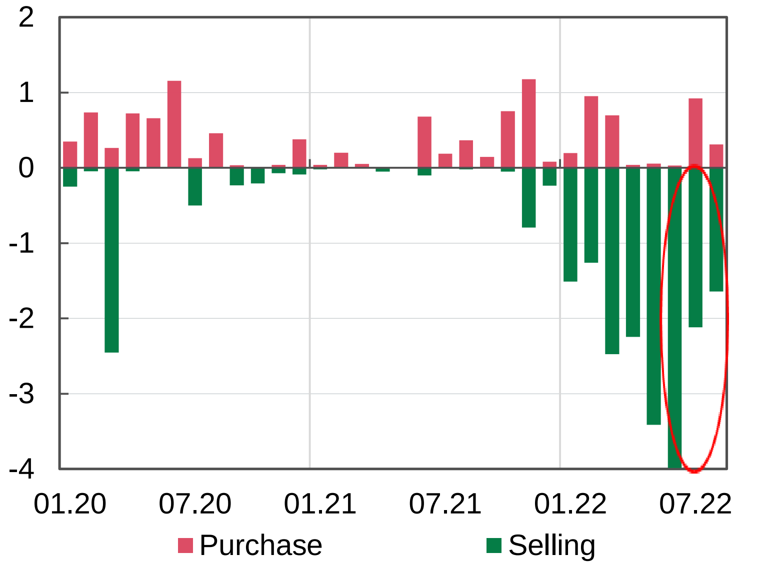
The yield on hryvnia government bonds, % per annum



Source: NBU staff calculations.

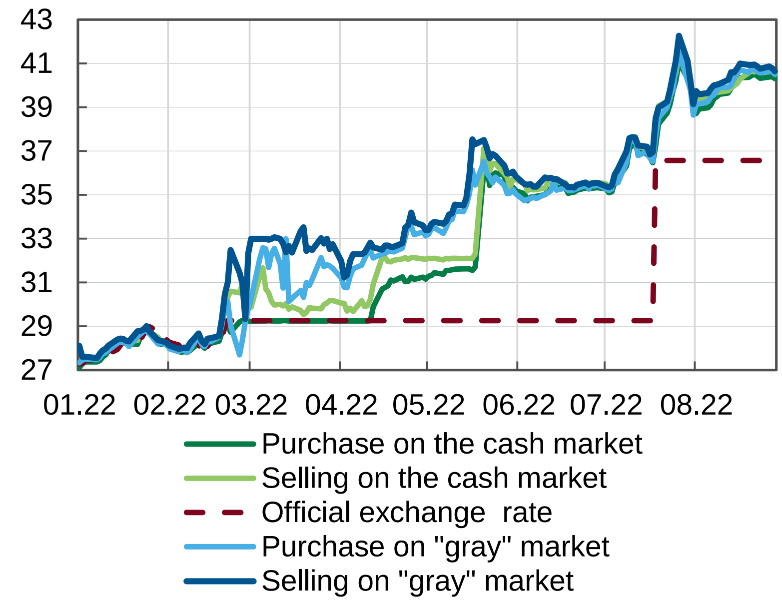
The situation in the FX market has improved due to the exchange rate correction, the establishment of the grain corridor, lower budget monetization volumes

Purchase and selling of non- cash foreign currency by the NBU, USD bn



Source: NBU.

Exchange rate UAH/USD



Source: NBU.

- NBU`s interventions to sell foreign currency have notably declined but still remain substantial. This requires further actions to increase the attractiveness of hryvnia assets
- Broader possibilities for the banks to sell FX cash allowed for the cash and non-cash exchange rates' convergence