



**NATIONAL  
BANK  
OF UKRAINE**

# **Macroeconomic and Monetary Review**

*January 2016*

**Monetary Policy and Economic Analysis Department**

## Summary

- **The ongoing slide in global commodity prices contributes to the economic challenges Ukraine has been facing.** Although export prices for selected Ukrainian semi-finished steel products remained virtually flat in the first half of January, a further decline in oil prices (for some time falling below a psychological threshold of \$30 a barrel) signaled that prices for other commodities likely faced downward pressures too. The oil price slump and the Fed fund rate increase caused **the US dollar to strengthen versus the euro and enhanced depreciation pressure on the currencies of commodity exporting countries.**
- **December's price data readings pointed to a continuing gradual moderation of inflationary pressure in Ukraine.** After peaking in April, **headline inflation slowed down to 43.3% y-o-y at the year's end**, keeping pace with the NBU forecast published in the Inflation Report (September 2015). The annual rates of increase in all CPI components kept declining. In particular, **core inflation eased to 34.7% y-o-y.** Further disinflation reflected falling world commodity prices, prudent monetary policy and stabilization of inflation expectations. Producer inflation has also been declining since April, reaching 25.4% y-o-y in December.
- **The decline in the Index of Key Sectors Output (IKSO) slowed down significantly in December (to 2.7% y-o-y), exceeding NBU expectations.** The slowdown was primarily due to higher-than-anticipated growth in construction and a low comparison base. Recovery in production activity was observed in all sectors except the production of electricity, gas, steam and air conditioning. A deeper decrease in electricity production is explained by warm weather in December. **In 2015 as a whole, the IKSO decreased by 11.7%.**
- Following the usual seasonal pattern, Ukraine's labor market indicators worsened in December. In particular, the **registered unemployment rate increased to 1.9%.** The number of households that applied for subsidies and the amount of allocated subsidies, continued to increase: **by the end of the year almost one third of all households have been receiving on average one thousand hryvnias.**
- **Budget expenditures traditionally surge up in December**, but the increase was much higher than expected. **As a result, both government and consolidated budget deficits widened** to UAH 45.2 billion and UAH 30.9 billion respectively. At the same time, the full-year fiscal balances significantly outperformed the initial targets. This allows suggesting that the general government deficit was comfortably below the IMF-targeted level. **December's consolidated budget deficit was mainly financed through a reduction of funds accumulated on the Treasury Single Account in the previous months** (the corresponding cash balances decreased by UAH 39 billion in December – to UAH 9 billion as of the end of the month).
- **In December 2015 and in early 2016, Ukraine's FX market remained volatile, with the hryvnia depreciating moderately.** Depreciation pressures on the hryvnia stemmed from decreasing export revenues amid falling global commodity prices and seasonal factors. Adhering to a floating exchange rate regime, the National Bank's measures were aimed at smoothing excessive FX market fluctuations. **On 28 January 2016, the NBU Board kept its key policy rate unchanged at 22% per annum** to mitigate risks to price stability.

*The Macroeconomic and Monetary Review is a translation of the original Report in Ukrainian. In case of any discrepancies between the original document and its translation to English, the Ukrainian version of the Report should prevail.*