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Monetary Policy and Economic Analysis Department

Summary

- **February saw signs of commodity price stabilization, albeit at low levels.** In particular, oil prices fluctuated at around USD 30 per barrel providing an impetus to stabilization of other commodity prices. Meanwhile, given stabilization of commodity prices at low levels, **external conditions remained unfavorable for the Ukrainian economy.** Rising fears about the paces of economic slowdown in China triggered a sharp drop in the Chinese stock market. Amid weak activity data for advanced economies and downward revisions to global economic growth projections, tumbling Chinese stocks spread turmoil into other markets. Given US dollar depreciation and signs of commodity price stabilization, currencies of select commodity-exporting emerging market economies somewhat rebounded in February.
- **In January, headline inflation slowed down to 40.3% y-o-y compared with 43.3% y-o-y in December.** January's price developments were consistent with the projected disinflation path, envisaging moderation of headline annual inflation to 12% by the end of 2016. As expected, all main CPI components recorded lower annual rates of increase. **In particular, core inflation eased to 31.3% y-o-y. Producer inflation also moderated to 21.2% y-o-y** reflecting the dampening impact of falling global commodity prices.
- **A decline in IKSO deepened to 3.3% y-o-y,** although the Index performance was expected to improve. In particular, activity in industry, wholesale trade and cargo transportation weakened due to trade restrictions imposed by Russia and adverse weather conditions. At the same time, retail trade surprised on the upside with annual decline slowing to 1.4% due to the wage growth and advance pension payments in December 2015.
- In December 2015, nominal average wage growth accelerated. Given also continuing disinflation trend, this caused **a further slowdown of real wage decline (to 9.9% y-o-y).** In January 2016, the total amount of housing utilities subsidies continued to increase. In addition, utility payment arrears by households also kept decreasing.
- **The state budget reported a surplus of UAH 2.5 billion,** which was a relatively unusual development for January in recent years. This result, however, did not surprise given advance pension payments executed in December 2015. In addition, the growth rate of tax revenues, to a notable extent attributed to the tax legislation changes, exceeded expectations. Local budgets also posted a significant surplus despite expenditures growing faster than revenues. These resulted in a sizable consolidated budget surplus.
- **In January 2016, the current account showed a deficit** of USD 379 million due to weaker **export performance.** Exports were hit by new trade restrictions imposed by Russia, heightened tensions in the Middle East and unfavorable weather conditions. As expected, **imports somewhat revived** following the expiration of the temporary import surcharge and a decrease in import duties after the Free Trade Agreement with European Union was fully enforced. **Net inflows in the financial account amounted to USD 500 million** thanks to the private sector borrowings. The surplus in **the overall balance of payments allowed international reserves to increase to USD 13.4 billion** or 3.5 months of future imports.
- Lower export revenues and political instability contributed to **enhanced depreciation pressures on the Ukrainian FX market in early 2016.** Although the stock of deposits in the banking system seasonally declined, in annual terms its growth accelerated. However, credit activity remained weak.

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, readers should consider the Ukrainian version of the Report as correct.