



National Bank
of Ukraine

Monthly Macroeconomic and Monetary Review

June 2023

**Monetary Policy and Economic Analysis
Department**



Summary

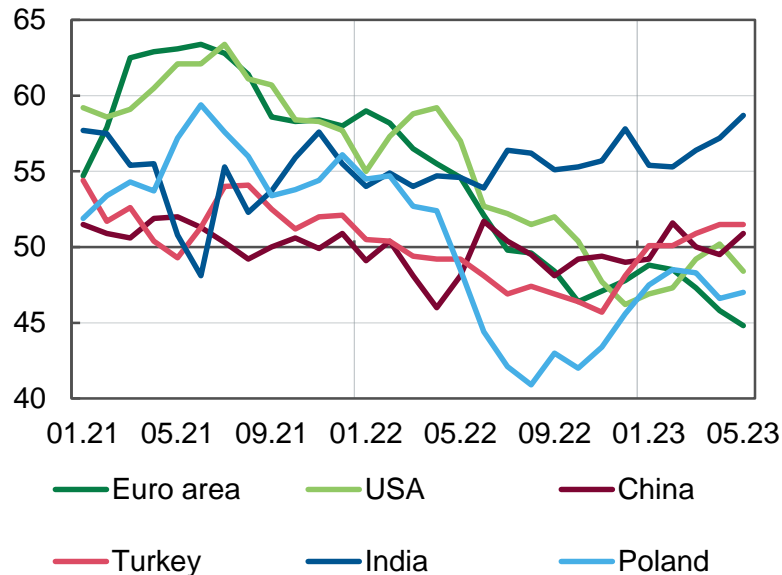
- While some indicators have improved, **global economic growth remained sluggish**, increasingly **reining in inflation**. High available stocks and weak current demand put downward pressure on energy prices. World prices for major Ukrainian export commodities mostly fluctuated in narrow ranges. Easing of inflationary pressure allowed the **major central banks to slow down the pace of monetary policy tightening** while some central banks of EM countries even to ease
- **Consumer inflation continued to decelerate (to 17.9% yoy in April)** due to a sufficient supply of foods and fuels, strengthening the hryvnia cash exchange rate, improved inflation expectations, and the previous year's base effects. According to the NBU estimates, inflation continued to decelerate in May, primarily due to the base effects and lower fuel prices
- **Economic activity continued to recover** in May, partly due to seasonality. Uninterrupted power supply and revival of domestic demand supported industry and trade. Instead, the blocking of the "grain corridor" and restrictions on the exports of food products restrained the work of the transport industry and a number of food processing sub-sectors
- **Labor demand continued to revive**. Private sector wages has almost stopped to decline. Household income was also supported by the indexation of pensions and budget payments. The number of internally displaced persons (IDPs) and migrants remained high
- In May, despite better revenues, the **state budget deficit widened** due to substantial expenditures. **The deficit was expectedly covered by international aid and domestic borrowings**. The volumes of the latter remained significant due to both the revival of market demand for government securities and further banks' purchases of the benchmark securities to meet the reserve requirements
- In April, the deficit in trade in goods and services remained significant. However, with receipt of the grant from the US **current account recorded a surplus**. Substantial amounts of official financing ensured the net capital inflows and the increase in international reserves to USD 35.9 bn as of the end of April. In May, reserves continued to grow to USD 37.3 bn, reaching the highest level since 2011
- **The attractiveness of hryvnia assets has been increasing** in response to NBU's maintaining the key policy rate high and additional NBU's measures. NBU's FX sales rose as net demand for foreign currency for non-cash transactions increased in May



External Environment

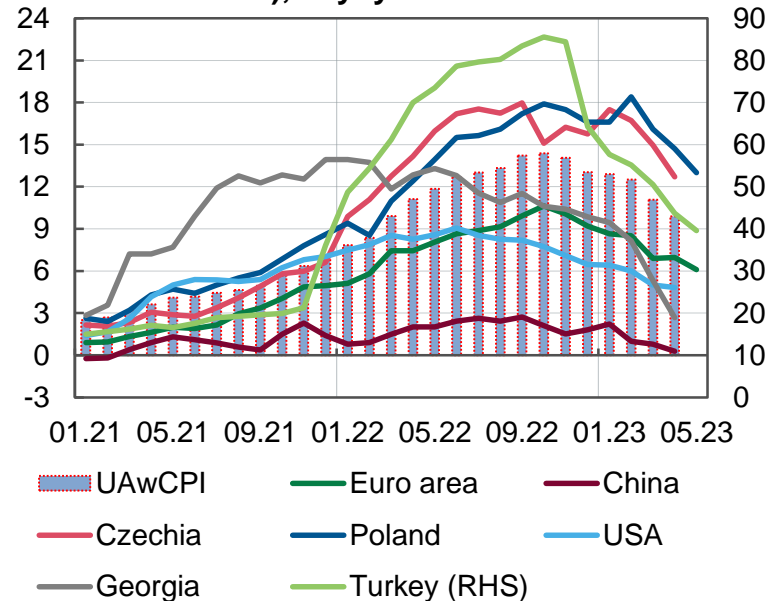
While some indicators have improved, global economic growth remained sluggish, reining in inflation

Manufacturing PMI of selected countries



Source: S&P Global.

CPI in selected countries and UAwCPI* (price index in MTP of Ukraine), % yoy

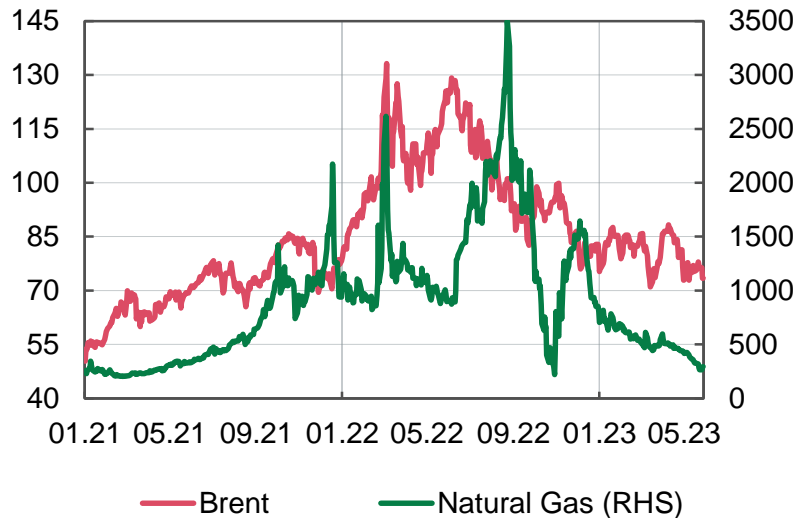


Source: National statistical offices, NBU staff estimates.

- Although leading indicators in May pointed to output in world manufacturing growing at the fastest pace in nearly a year owing to the easing of supply chain disruptions, new orders continued to decline, pointing to weak demand
- Under these circumstances, selling prices fell for the first time since mid-2020
- Meanwhile, growth in the global services sector PMI accelerated
- Inflation pressures in Ukraine's main trade partners (MTP), as measured by UAwCPI, kept easing primarily due to lower prices of goods, including non-food products, while services inflation persisted amid rising wages and strong labor markets

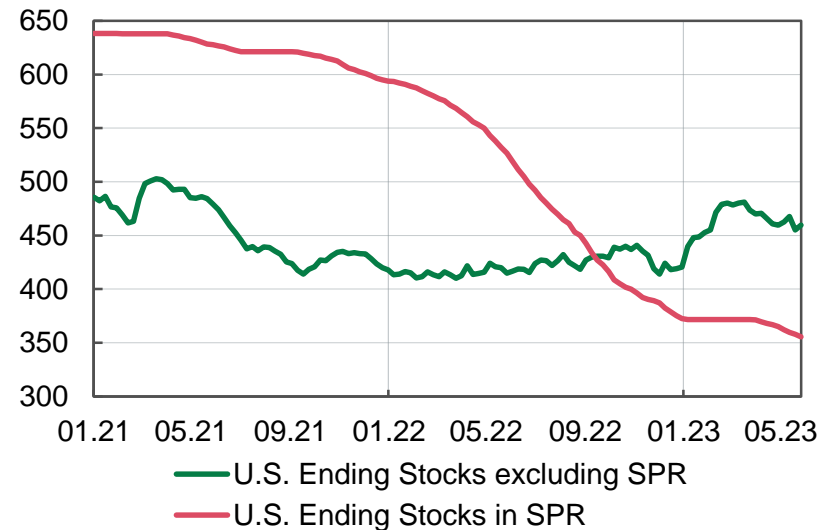
High available stocks and weak current demand put downward pressure on energy prices

World Brent oil prices (USD/bbl) and Netherlands TTF natural gas prices (USD/kcm)



Source: Refinitiv.

U.S. ending stocks of crude oil, million barrels

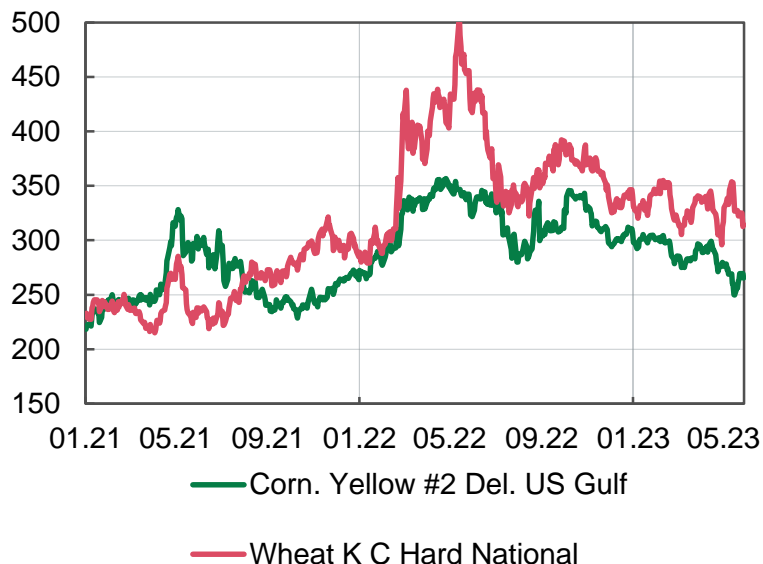


Source: U.S. Energy Information Administration, as of 26.05.23.

- Oil prices fluctuated within a narrow range under downward pressure. Uncertainty about the pace of economic recovery in China and fears of a recession in the U.S. (amid high interest rates and the risk of default on public debt) offset the effect of the OPEC+ agreement on production cuts. In addition, Russia's steady oil exports cast doubt on its previous statements about production cuts
- Gas prices in Europe continued to decline due to: the significant reserves in key regions; the lack of competition for supplies on the spot market; the substantial increase in the production of electricity from renewable energy sources, in particular solar, – by 11% yoy in the four months of 2023 (Bloomberg data)

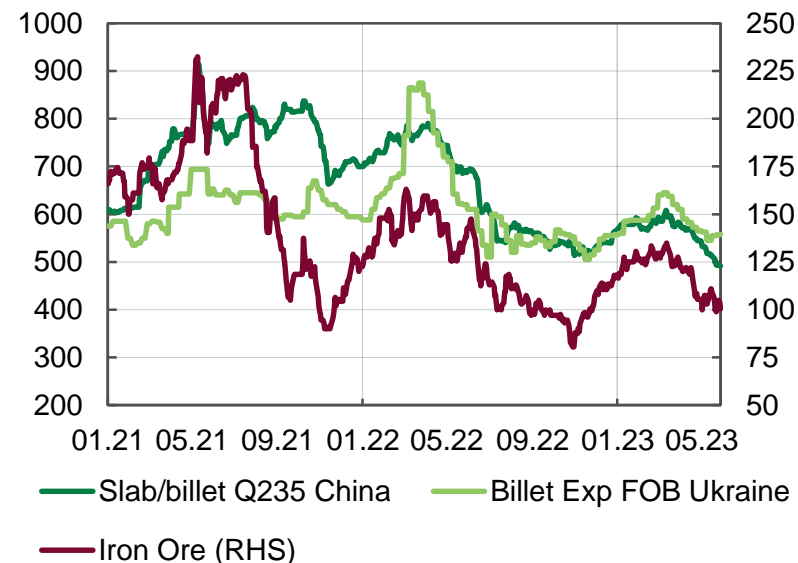
World prices for major Ukrainian export commodities mostly fluctuated in narrow ranges

Global grain prices, USD/MT



Source: Refinitiv.

Global steel and iron ore prices, USD/MT

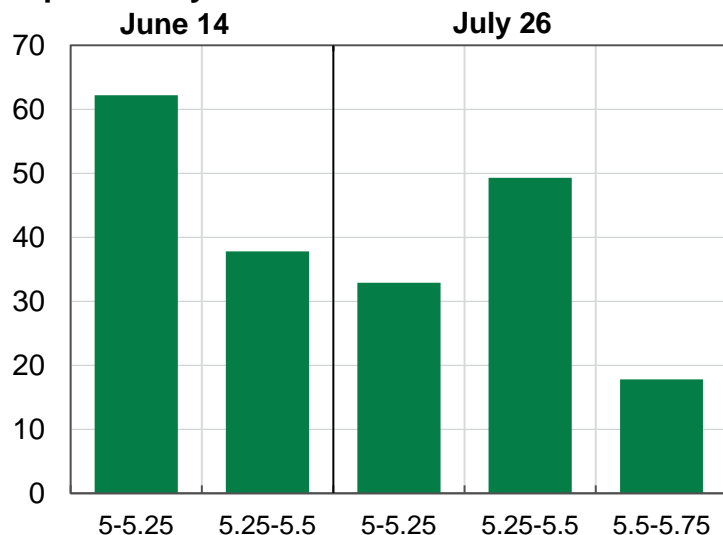


Source: Refinitiv, Delphica.

- Partial blockade of grain exports from Ukraine and problems with wheat crops in the U.S. caused an increase in wheat prices in the first half of May, outweighing the influence of optimistic expectations of world production in 2023/24 MY and record deliveries from Russia. Instead, corn prices fell owing to a record crop in Brazil, rapidly progressing U.S. planting, and a possible decline in China's imports
- Global steel and iron ore prices were under downward pressure from weak steel demand in most regions of the world. Meanwhile, lower iron ore inventories and the gradual resumption of work of blast furnaces following repairs in China supported iron ore prices

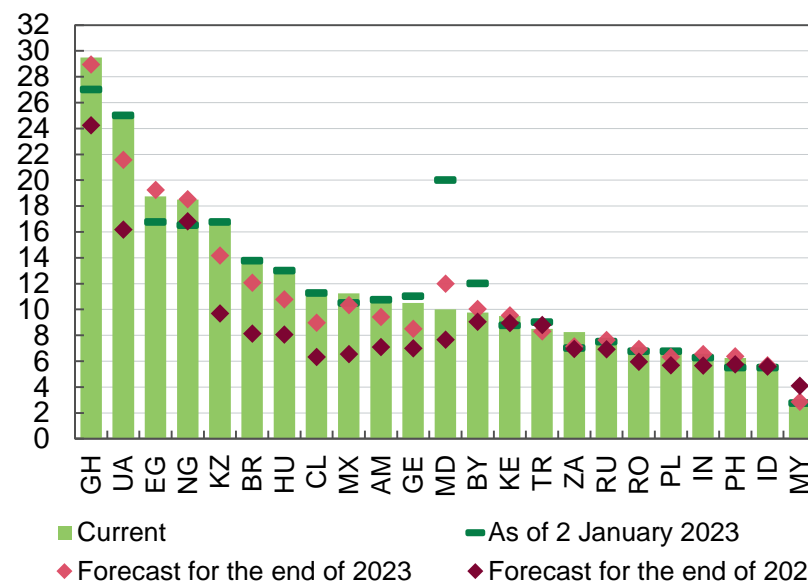
The easing of inflation enabled major CBs to slow down monetary tightening and some EM CBs to start monetary easing

The expected level of the target range for the federal funds rate at respective meeting in 2023, % of probability



Source: CME FedWatch Tool, as of 31.05.2023.

Key policy rates in selected EM countries, %



Source: official web-pages of central banks, Focus Economics, Oxford Economics, as of 31.05.23.

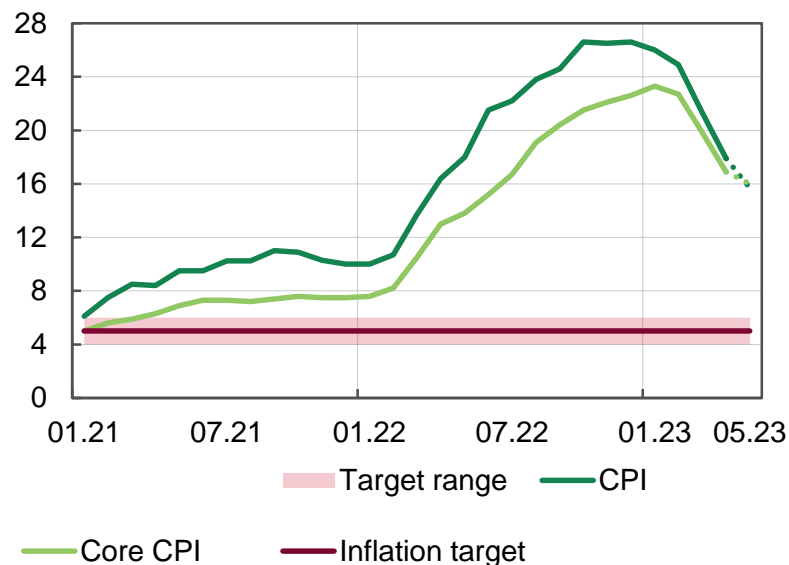
- **The Fed** signaled a "hawkish pause" in the monetary tightening cycle after raising its target rate range by 25 bps and continuing the planned balance sheet reduction in May. Markets expect a pause in June with a probability of about 62%. Expectations of a rate cut by the end of the year have also decreased
- **ECB** has slowed down the pace of monetary policy tightening to 25 bps and signaled further rate hikes. The ECB is expected to raise the deposit rate by 25 bps at each of the next two meetings to a peak of 3.75% and will start reducing it no earlier than in 2024
- CBs of Georgia and Hungary have joined the CB of Moldova, starting a gradual exit from tight monetary policy. At the same time, most **EM CBs** are still in a cautious position and plan to keep rates at current levels for some time



Ukraine: Inflation

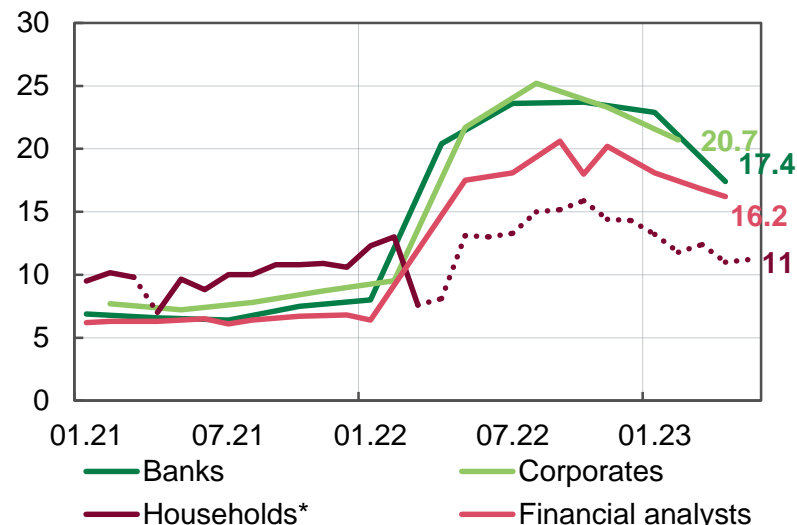
Consumer inflation decelerated faster than expected

Inflation and inflation target, % yoy



* Data for May reflects nowcast.
Source: SSSU, NBU staff estimates.

Inflation expectations for the next 12 months, %

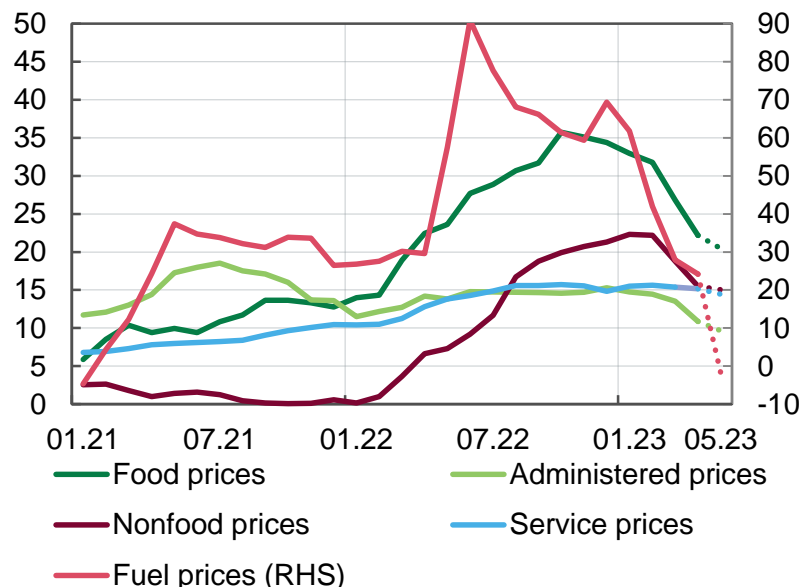


* The dotted line indicates a change in the method of survey for a telephone interview.
Source: NBU, GfK Ukraine, Info Sapiens.

- The slowdown reflected the effects of a robust supply of foods and fuels, strengthening the hryvnia cash exchange rate, improved inflation expectations, and the base effects
- Underlying inflationary pressures also eased as inflation and exchange rate expectations improved in the face of favorable FX market conditions, subdued consumer demand, and reduced cost pressures amid a stable situation in the energy sector
- According to the NBU, due to these factors inflation continued to decrease in May as well

Inflation declined due to strengthening of cash exchange rate, a robust supply of food staffs, and base effects...

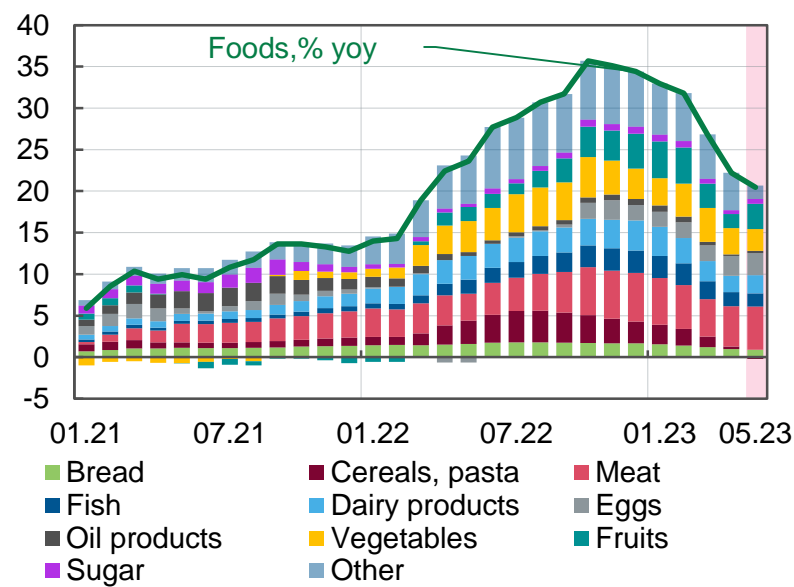
Selected CPI components*, % yoy



* Data for May reflects nowcast.

Source: SSSU, NBU staff estimates.

Contributions to the annual change in food prices*, pp



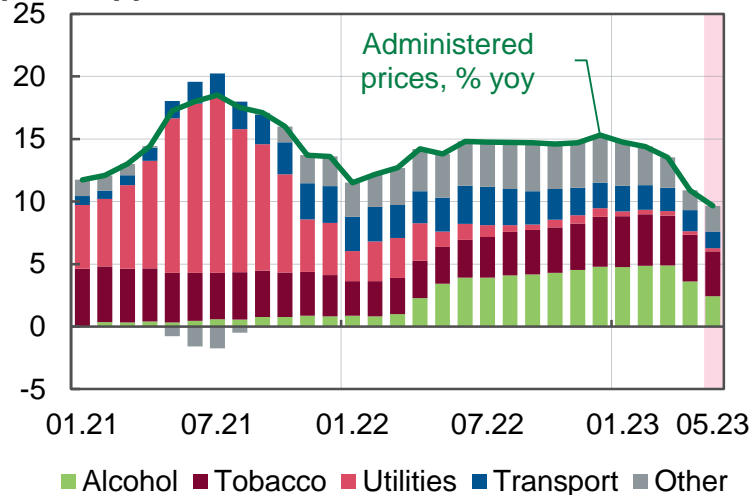
* Data for May reflects nowcast.

Source: SSSU, NBU staff estimates.

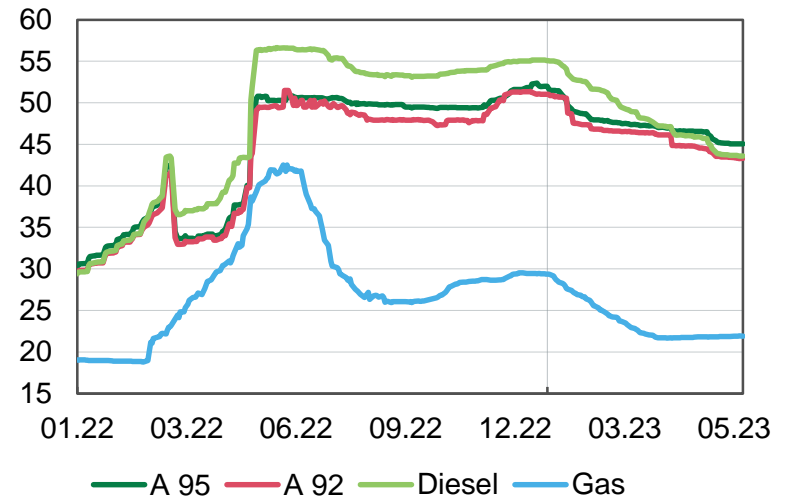
- The rise in food prices slowed significantly, driven by lower growth in raw material and fuel costs, and the recovery of production and logistics chains, particularly amid a stable energy situation
- Lower global prices amid weak demand, as well as uncertainty related to restrictions on food transit through neighboring EU countries, slowed the rise in prices for dairy products and sunflower oil. Prices for cereals and flour declined, while sugar prices slowed due to last year's sufficient domestic harvest
- Despite the seasonal increase in supply, the annual growth rate of egg prices accelerated, reflecting the low comparison base of the previous year. Meat prices continued to rise due to limited production capacity and weak imports

... significant fuel stocks, and fixed utility tariffs

Contributions to the annual change in administered prices, pp



Fuel prices, UAH / L



* Data for May reflects nowcast.

Source: SSSU, NBU staff estimates.

Source: minfin.com.ua, NBU staff calculations.

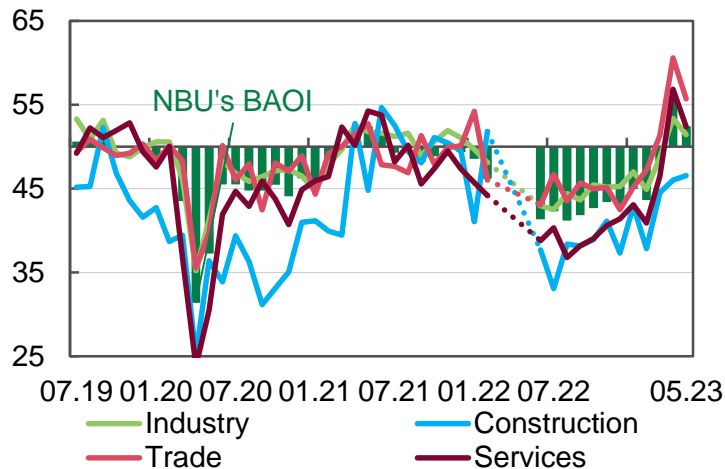
- Fuel price growth continued to slow given substantial stocks built up in previous months at lower global oil prices
- This also contributed to a slowdown in the growth of transportation prices, as well as to an easing of the pressure on prices of other CPI items through second-round effects
- Tobacco product prices grew more slowly, likely under pressure from the shadow market
- The growth in administered prices continued to be restrained by the moratorium on increases in utility tariffs for households



Ukraine: Economic activity

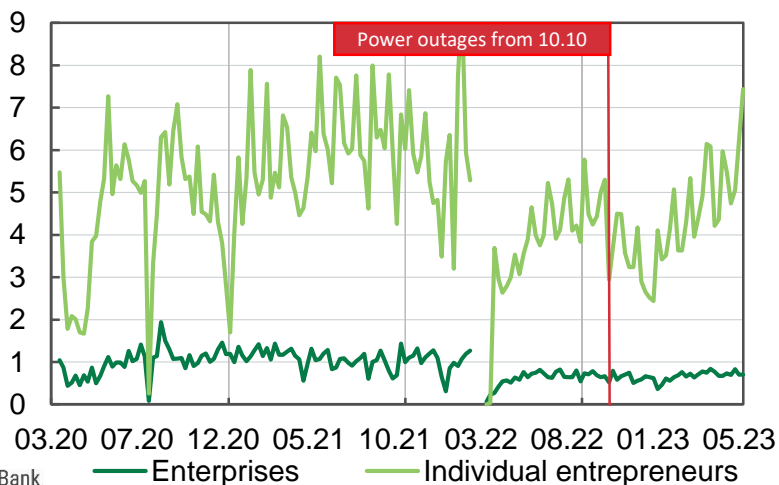
In May, partly due to seasonality, economic activity in the service sector continued to pick up

NBU's business activity outlook index, sa, p



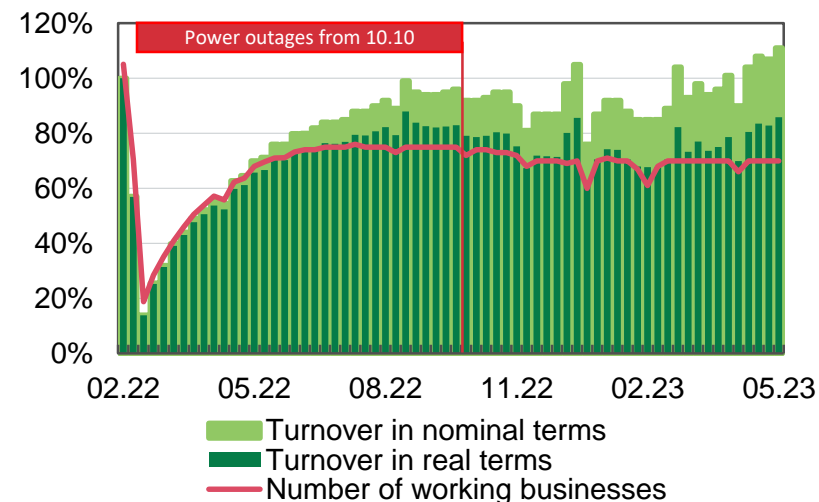
Survey was not conducted from March to May 2022.
Source: NBU.

New business registrations, thousands



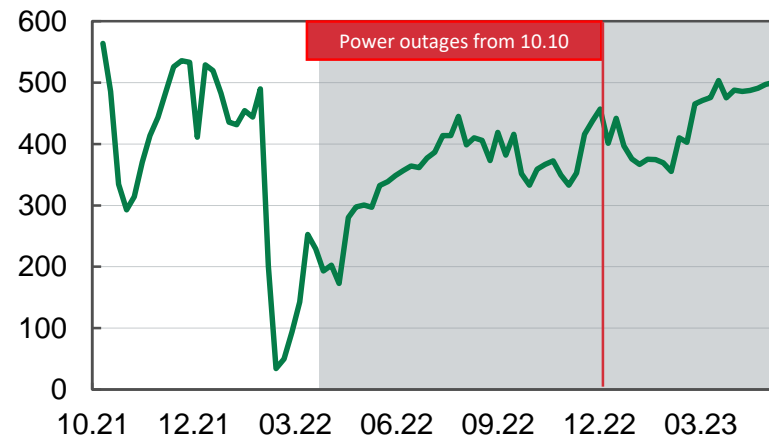
National Bank of Ukraine Source: opendatobot.ua.

Performance indicators of the restaurant industry, %



Source: SSSU, Poster, NBU staff estimates.

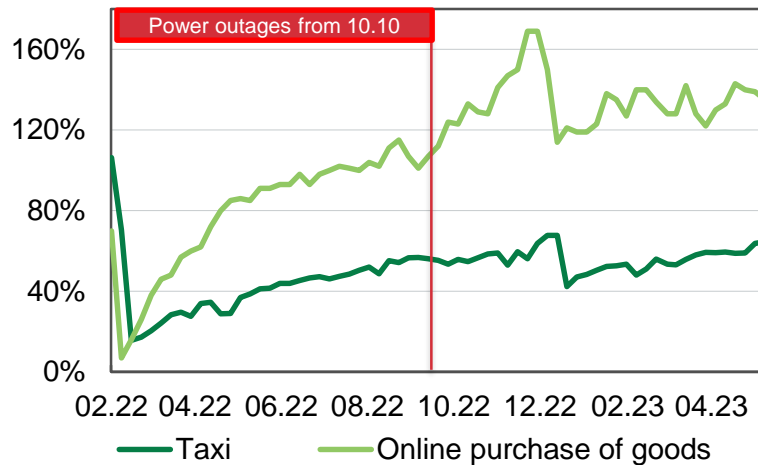
Number of UZ tickets sold per week, thousands



Source: UZ.

So did retail trade...

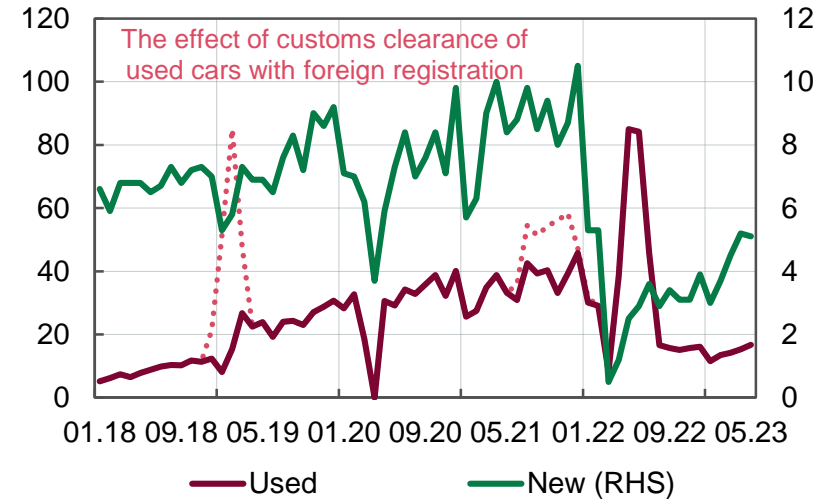
The number of taxi orders and online purchases of goods, % to pre-war level



Source: Opendatabot (Bond taxi service and Khoroshop service).

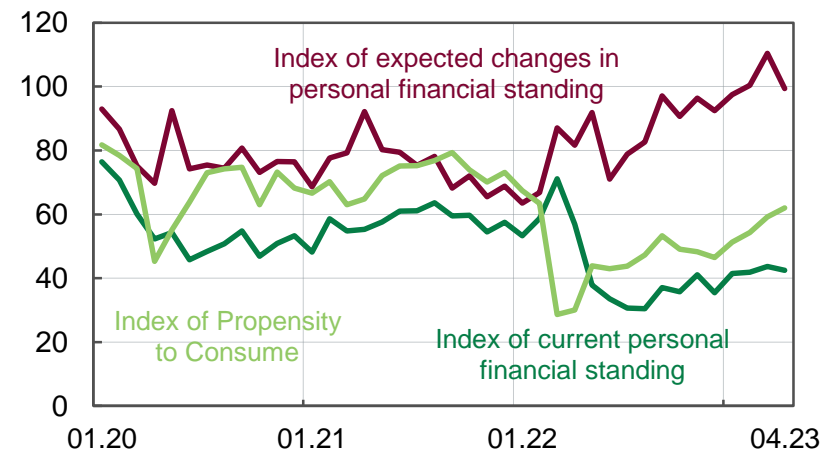
- As of the beginning of May, 97% of retail chains and stores have resumed work (the recovery of food chains has reached 98%, non-food chains - 99%, and the number of working pharmacies has exceeded the pre-war level)
- Sales of new passenger cars in May remained close to the level of April
- Fuel trade also grew backed by ongoing agricultural works, revitalization of the processing industry and the construction companies operations

The first registration of passenger cars, thousand units



Source: Ukravtoprom.

Components of the consumer sentiment index, p.

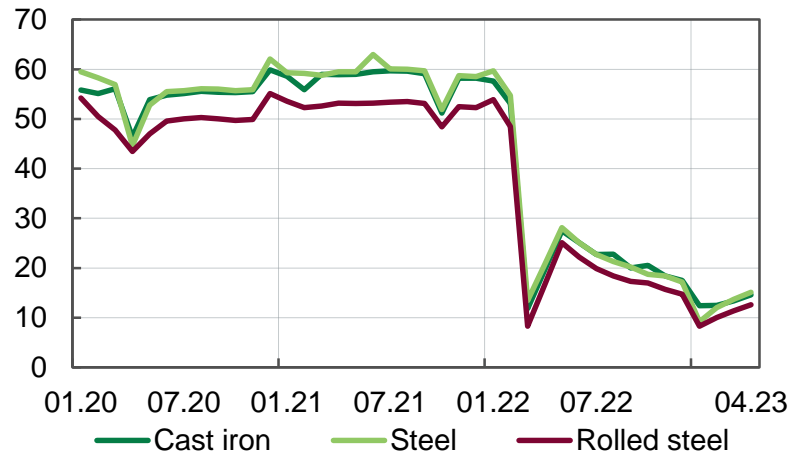


From March 2023, the survey method was changed from face-to-face to telephone interviews.

Source: Infosapiens.

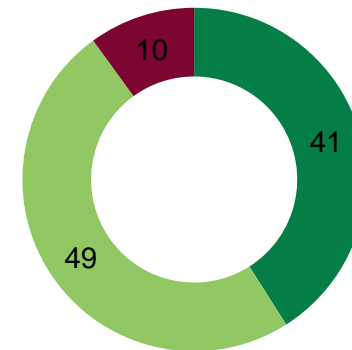
...and industry. However, business activity remained restrained by significant losses due to the war

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



Source: Ukrmetallurgprom.

"Is your business operational?", % of answers

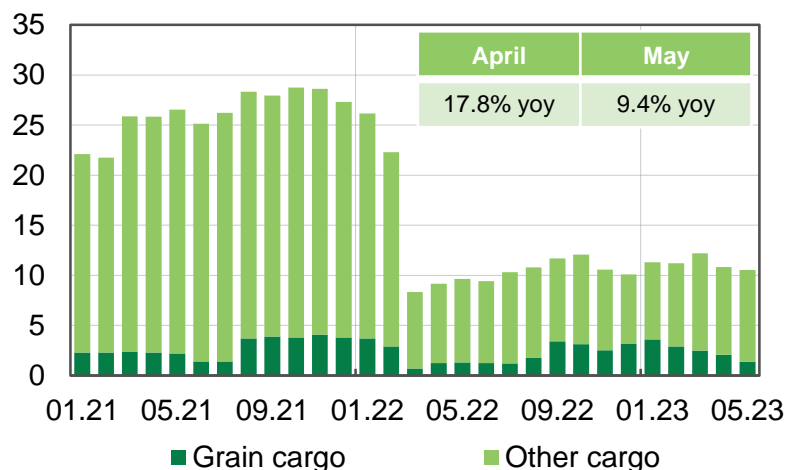


■ Works in full ■ Works with limitations ■ Does not work
Source: EBA (Q2 2023).

- Uninterrupted power supply, orders from [mining](#) enterprises and [railways](#) supported metallurgy
- [Coal](#), [ore](#) and [gas mining](#) enterprises increased production, including thanks to the introduction of new capacities
- Repairs of [power supply equipment](#) and [wagons](#), [defense orders](#) and the increase in [coal production](#) supported engineering
- Retention of [significant demand for fertilizers](#) given shifted sowing campaign, [recovery of exports](#) and lower gas prices supported the chemical industry
- The need to [expand the logistics](#) on the western borders, construction and rehabilitation of roads backed the construction industry
- In Q2 2023, according to the [EBA survey](#), almost half of SMEs (49%) worked with restrictions, every tenth one did not work. Among the interviewees, most often (26%) the losses from the war are estimated at USD 10,000-50,000, 18% estimate it at more than USD100,000. Among large international companies, [according to the EBA](#), 31% work with restrictions, only 1% is not operational

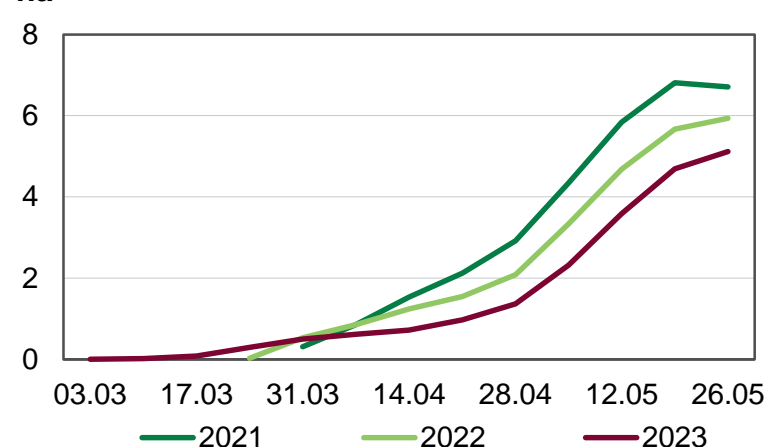
The obstruction of the "grain corridor" and export restrictions restrained the transport industry, oil and dairy processing

Rail freight transportation, m t



Source: SSSU, Rail.insider, UZ

Areas of sown spring grain and leguminous crops, m ha



Source: MinAgro, latifundist.com.

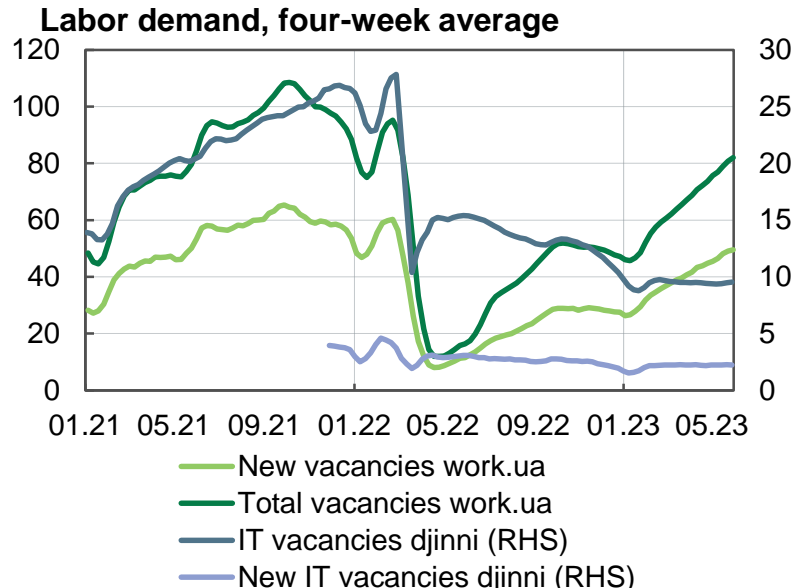
- The situation in the transport industry further worsened amid the Russia's obstruction of the "grain corridor" (the volumes of cargo transported through the corridor decreased in May by 15% mom) and export restrictions (road and rail transportation decreased by 2.4% mom, primarily at the expense of agricultural cargo); at the same time, transshipment volumes of river ports were supported by metallurgical products
- Transport restrictions hampered sunflower oil (individual factories halted operations in May) and dairy processing. Meanwhile, a number of food industry enterprises increased their capacities in May, in particular in de-occupied and close to the front line cities, cheese and meat production increased, and investments in the industry are also growing
- Better weather conditions since mid-May allowed the sowing campaign to gain momentum (sowing of early crops was completed; campaign for late crops is expected to be finished in the first decade of June). However, the sown area was 14% below the last year's one (-24% compared to 2021)

The increase in product prices supported the production of greenhouse vegetables; there is an increase in the production of most agricultural crops compared to the previous year

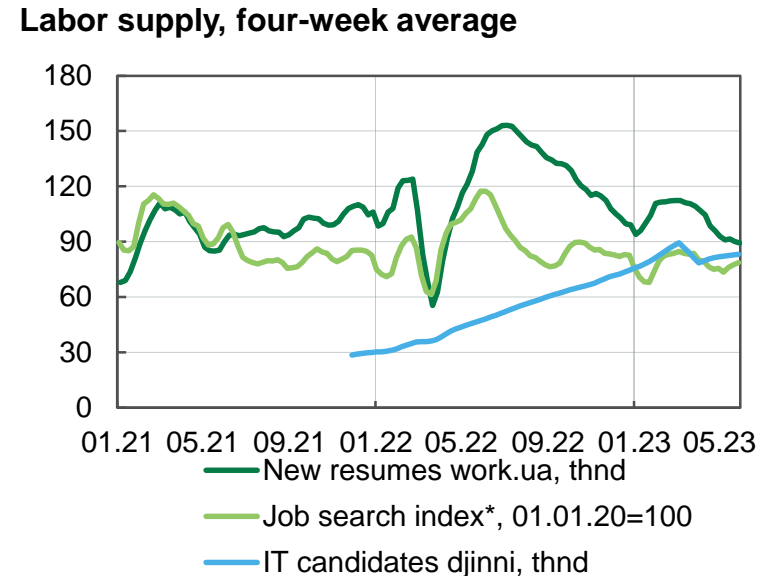


Ukraine: Labor market

Labor demand was growing steadily, which may be partly due to seasonality, particularly in agriculture

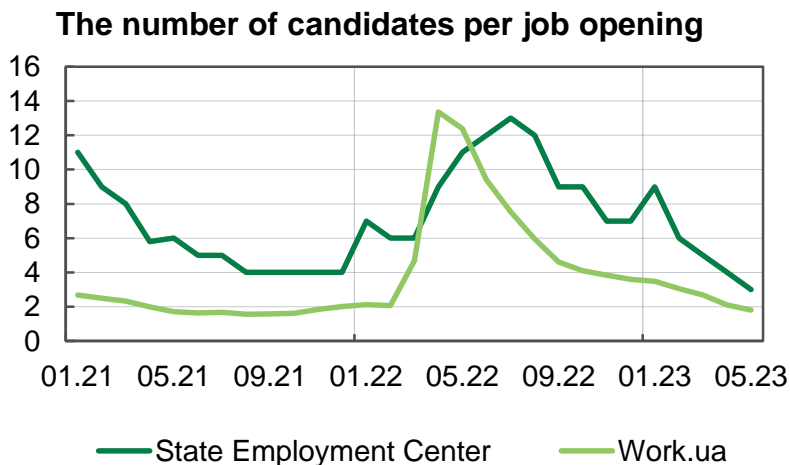


Source: work.ua, Opendatabot, NBU staff estimates.



* Includes job search queries in Ukrainian and russian.
Source: work.ua, Opendatabot, Google Trends, NBU staff estimates.

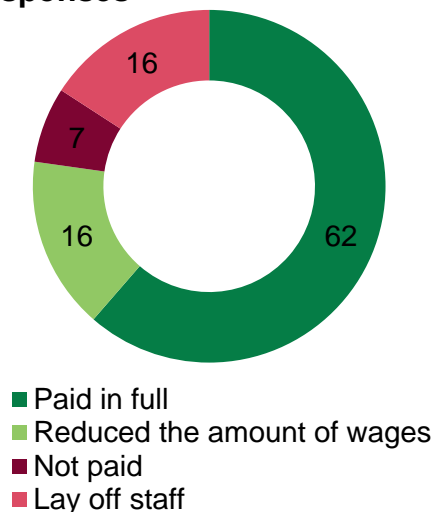
- The growth in the number of resumes has virtually stopped, while the number of job offers continues to grow (except in the IT sector, where the situation is complicated). The increase in labor demand is partly reflects seasonality, in particular, seasonal work in agriculture, and partly due to the [mobilization of employees](#), including essential ones, and the [growing difficulty in recruiting new staff](#)
- As a result, the number of candidates per job opening fell and in May 2023 was close to the level of May 2021



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

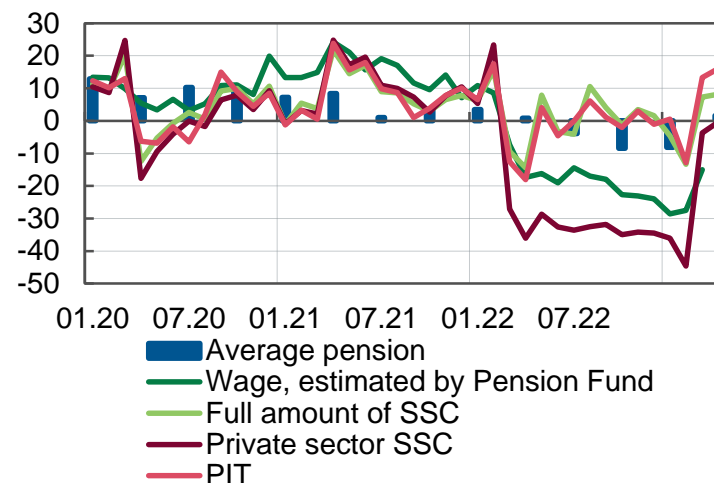
Increased competition for labor may put upward pressure on wages, primarily in the real sector

Status of wage payments among SMEs in the Q2 2023, % of responses



Source: EBA (Q2'2023).

Indirect indicators for estimating real household income*, % yoy

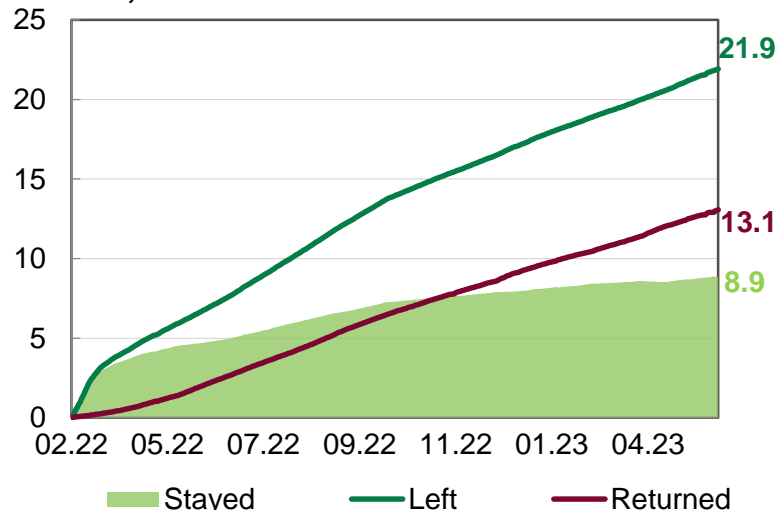


* Deflated by CPI. Source: Pension Fund of Ukraine, SSSU, STSU, NBU calculations.

- According to the EBA [survey of SMEs](#), in the Q2 of 2023, the majority of companies (62%) paid salaries in full. At the same time, 32% reported no financial reserves available, and 16% laid off employees. Among large international companies, [according to the EBA](#), 90% paid salaries in full, and only 5% of companies had no financial reserves
- According to the [IER survey](#), most companies (91%) do not plan to change the number of employees. This indicates that employment level has stabilized, but at a much lower level than before the full-scale war
- A decline in real wages in the private sector has virtually stopped amid a low base effect, which, along with the indexation of pensions and public sector payments, has supported household income. However, further growth will be constrained by the difficult financial situation of enterprises and high level of uncertainty

The number of both IDPs and migrants abroad remained significant

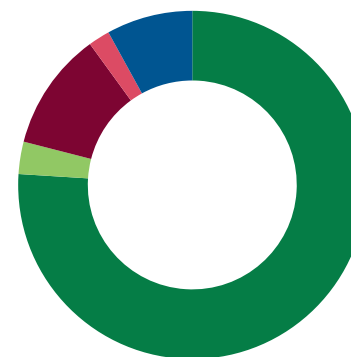
Number of citizens who crossed the border of Ukraine, m



Source: [UNHCR](#).

- According to the [UNHCR](#), as of 21 May 2023, the number of Ukrainian migrants abroad reached 8.9 million (an increase of 919 thousand since the beginning of 2023), of which 5.1 million have temporary protection status in the EU. The number of registered IDPs as of April 30 reached 3.6 million, while IOM estimated the number of IDPs as of early May at 5.1 million, and the number of those who returned to their previous place of residence after 24 February 2022 – at 4.8 million
- According to the [CEDOS study](#), 76% of young people, who had fled the country because of the war, want to return to Ukraine, 11% would like to stay where they are
- According to the [survey of EBA members](#), 81% of respondents remained in their permanent place of residence or have already returned home, 15% are currently abroad, and 4% have changed their place of residence within Ukraine. Among those who have traveled abroad, more than half (55%) plan to return, with one-third within a year, but 22% believe they probably will not return. Security concerns and economic factors remain the main obstacles for return

“Do you plan to return to Ukraine?”, % of answers of respondents aged 14-34



- Yes, I would like to return to Ukraine
- Yes, I would like to move to another country
- No, I would not like to move to another country
- No, but I would like to move within the country

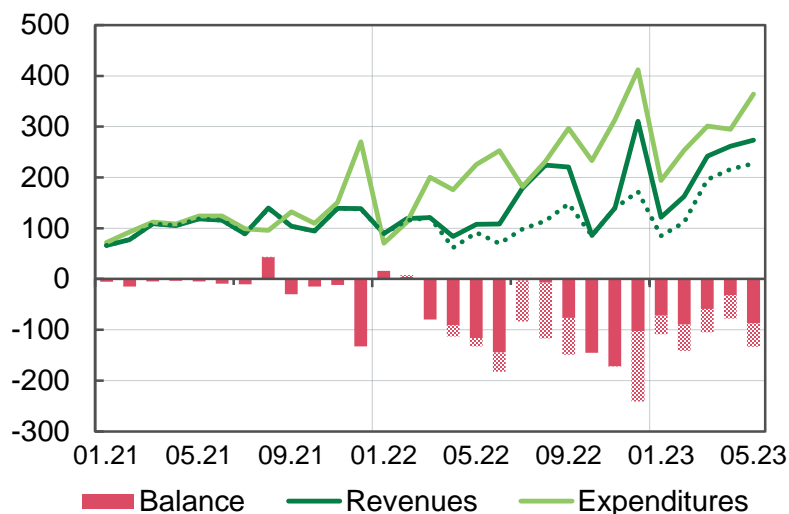
Source: CEDOS (October 2022 - January 2023).



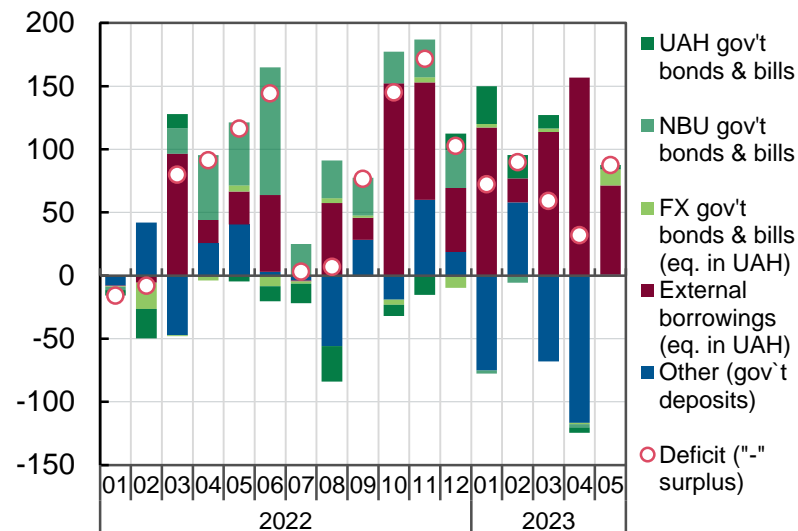
Ukraine: Fiscal sector

In May, the state budget deficit widened amid sizable expenditures

Main state budget indicators* (monthly), UAH bn



State budget balance financing**, UAH bn



* Dotted and patterned fillings show relevant indicators excluding grants. Balance includes net lending. ** Debt transactions are net borrowings. Other financing represents active operations (in particular, includes the change in volumes of government funds) and privatization.

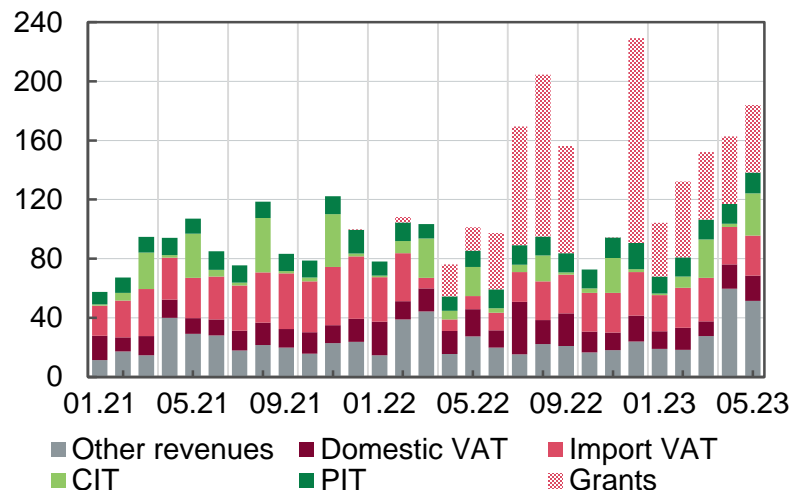
May – preliminary and high-frequency data from the MFU website. NBU calculations based on the MoF's website information.

Source: Treasury, MoF, NBU staff estimates

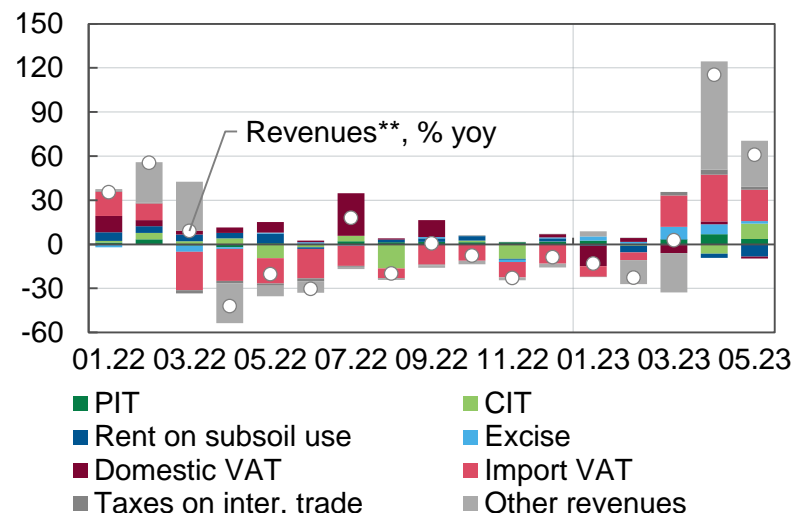
- After a certain narrowing in March-April, the state budget deficit widened again in May to over UAH 133 bn. Since the beginning of the year the deficit exceeded UAH 566 bn excluding grants in revenues (UAH [341.2](#) bn including grants)
- For the first five months of 2023, the deficit and debt redemptions were covered by:
 - international financing: USD 19.8 bn (out of which grants accounted for USD 6.2 bn);
 - domestic borrowings (UAH [240.3](#) bn), which remained significant, in particular, thanks to the NBU measures allowing the coverage of required reserves with the benchmark domestic debt securities and the gradual revival of market demand for government securities

In April-May, revenues grew at a high pace

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



Contributions to annual changes in revenues** of the state budget's general fund, pp



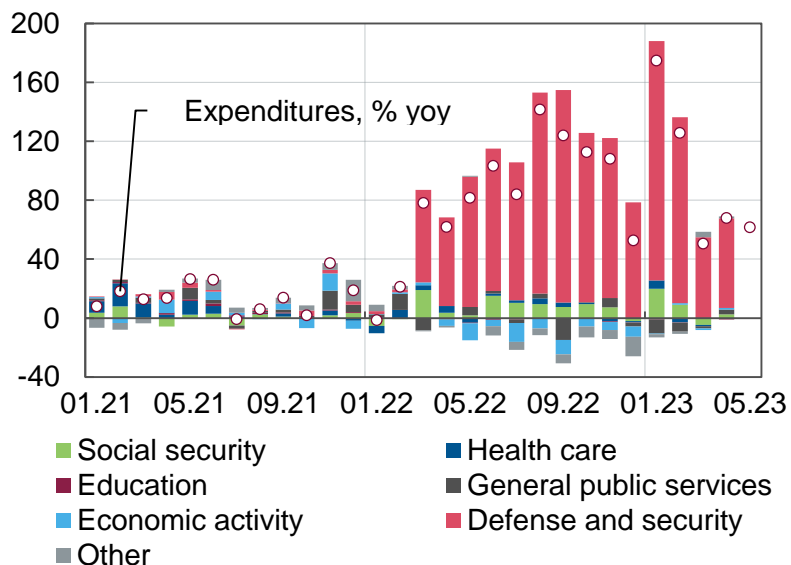
* May – preliminary and high-frequency data from the MFU website. NBU calculations based on the MoF's website information. ** Excluding grants.

Source: Treasury, MoF, NBU staff estimates.

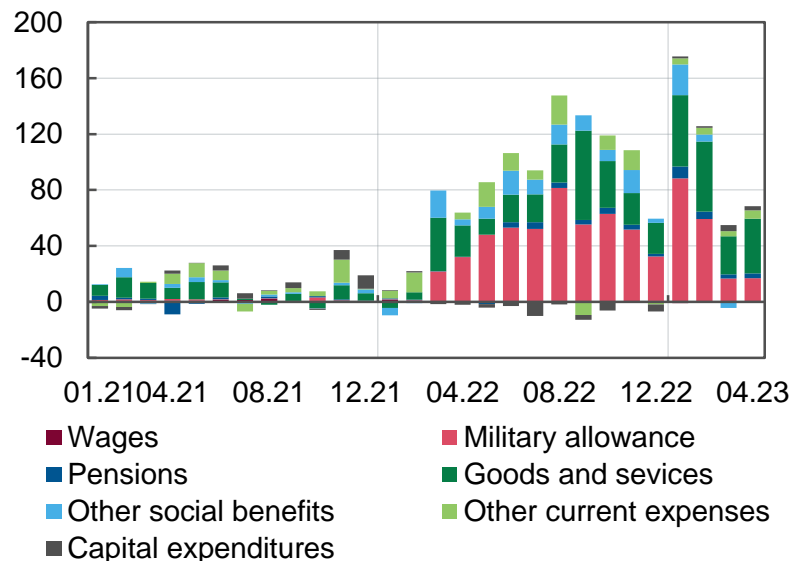
- In April-May, revenues (excluding grants) surged in annual terms, which reflected both the low base effect and the gradual revival of economic activity this year. Also, considerable payments to military personnel continued supporting revenues (affecting the dynamics of PIT and consumption taxes)
- In April-May, non-tax revenues also had a stronger effect on revenues, primarily after NBU transferred a part of its profit (UAH [35.9](#) bn) and dividends from Privatbank were received (UAH 24.2 bn)
- Grants remained a crucial source of revenue generation. They accounted for almost 31% of the state budget general fund's revenue over the first 5 months of 2023 and ensured the revenue growth of more than 57% yoy in Jan – May

Expenditures remained substantial and grew at a significant pace despite the high comparison base

Contributions to annual changes in expenditures of the state budget*, pp (functional classification)



Contributions to annual changes in expenditures of the state budget, pp (economic classification)



* May – preliminary data from the MFU website. NBU calculations based on the MoF’s website information.
Source: Treasury, MoF, NBU staff calculations.

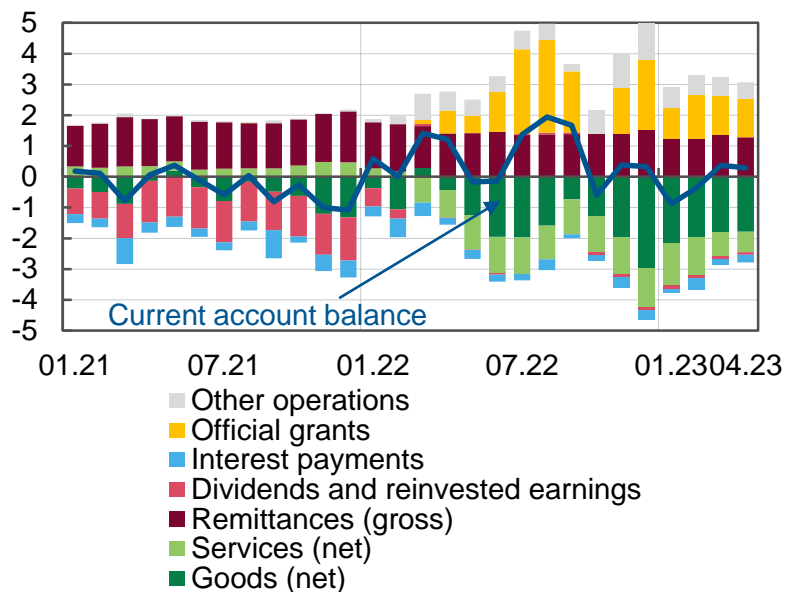
- In April-May, expenditures grew at a significant pace, despite their rapid expansion in 2022. Defense and security (in particular, on military allowances and armed forces material and technical support) along with social programs remained the major spending directions
- Since March, capital expenditures have also significantly increased, in particular, those aimed at restoring and repairing infrastructure



Ukraine: Balance of Payments

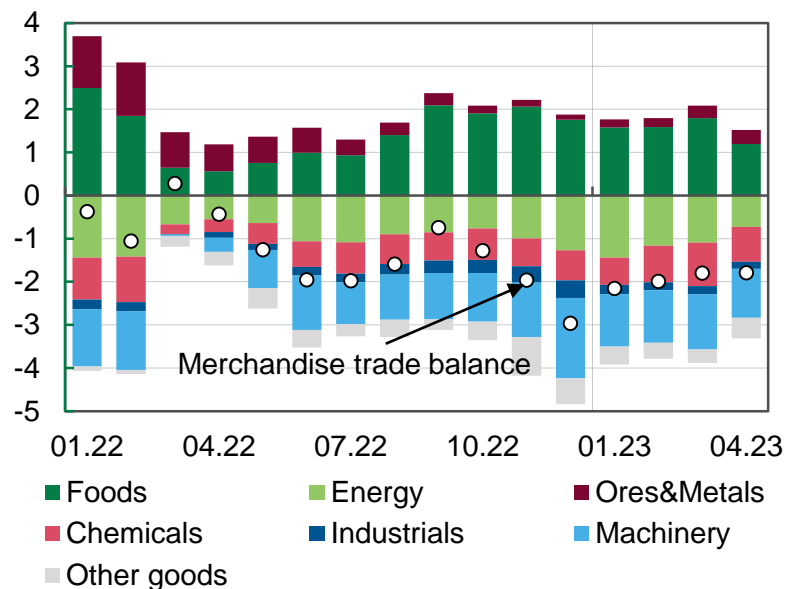
In April, receipt of a grant from the US and remittances ensured the current account surplus

Current account balance, USD bn



Source: NBU.

Merchandise trade balance, USD bn

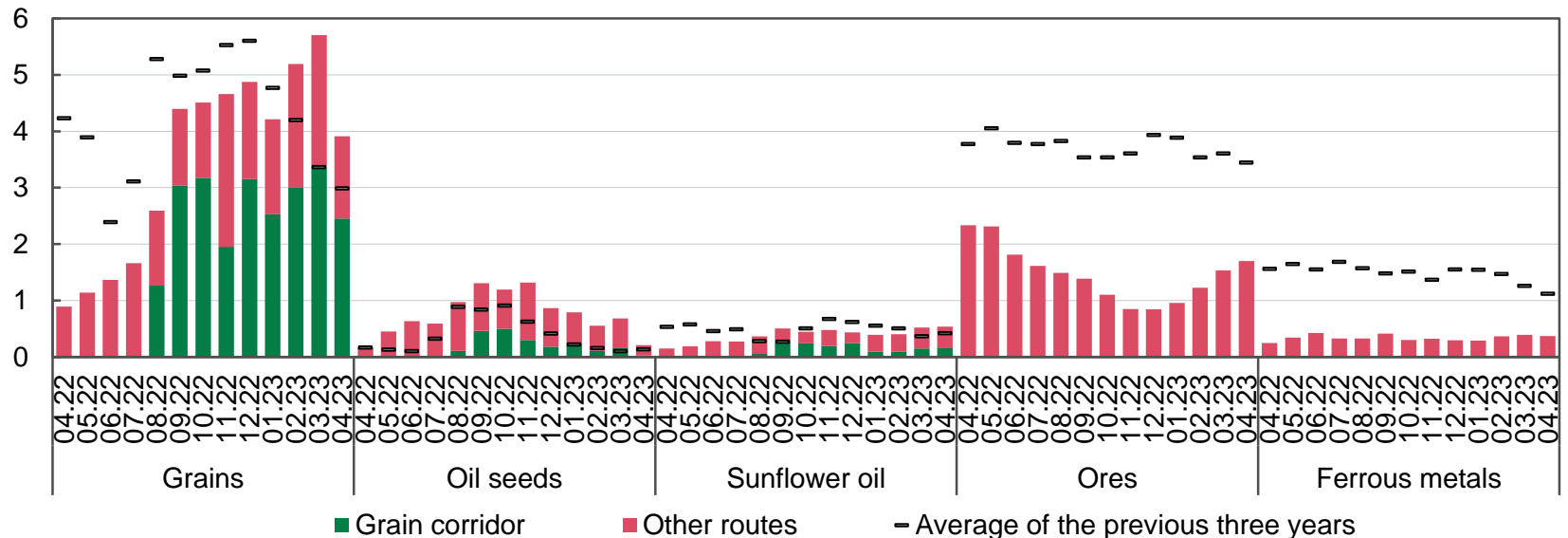


Source: NBU.

- The deficit in trade in goods remained substantial and was almost flat compared to March: the decline in exports of goods was comparable to the decrease in imports
- At the same time, the deficit in trade in services slightly narrowed given lower volumes of cash withdrawals abroad, which were reflected in a further reduction in the imports of travel services
- The receipt of another grant from the US and remittances remained the major drivers of the current account surplus

Obstruction of the grain corridor and a ban on Ukrainian food imports by some EU countries led a drop in exports

Exports of key goods, m t

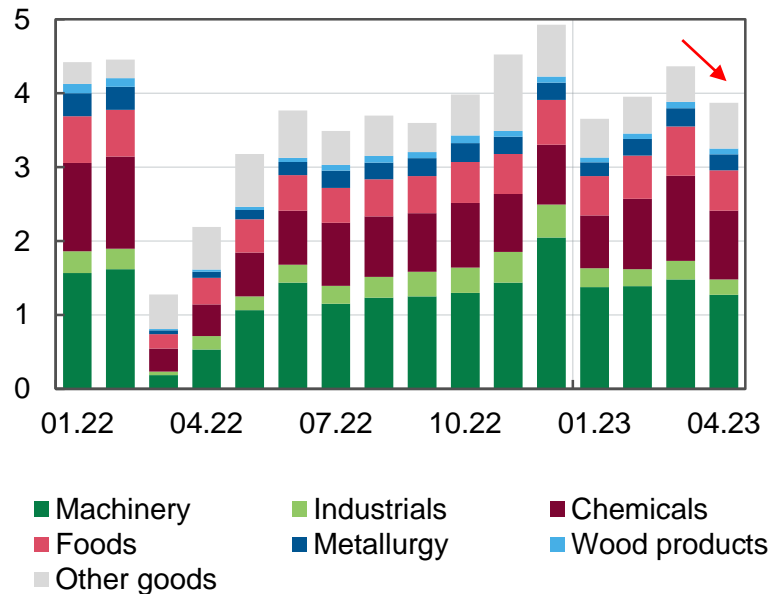


Source: SCSU.

- russia's intensive obstruction measures limiting the grain corridor operations, as well as the ban on the import of key food products and the complication of their transit by certain EU countries, made exports of goods to drop compared to March. Further decrease in the prices of grains and sunflower oil was an additional factor
- Meanwhile, the exports of ores and metallurgical products were recovering gradually driven by the increase in iron ore supplies, as well as expensive products taking a larger share in the supply product range, in particular, semi-finished products and rolled products

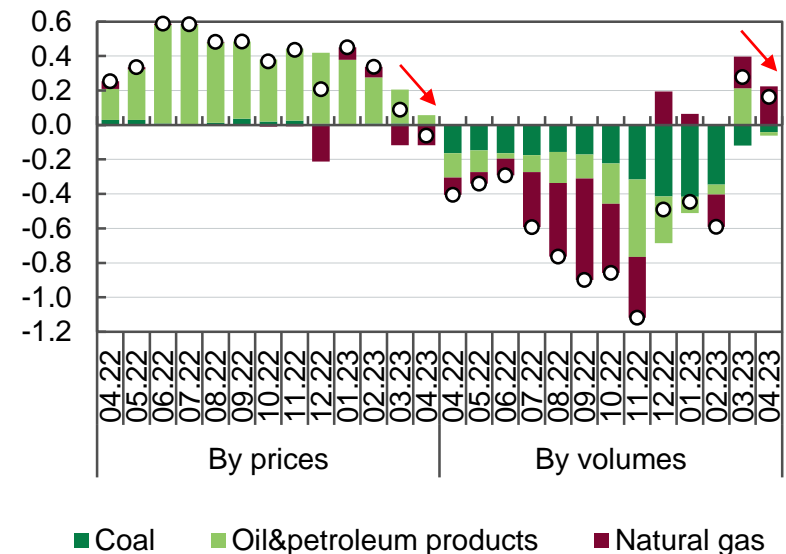
Lower needs for energy products and a seasonal reduction in demand for fertilizers were behind the decline in imports

Non-energy imports, USD bn



Source: NBU.

Absolute annual change in imports of selected energy products by prices and volumes, USD bn

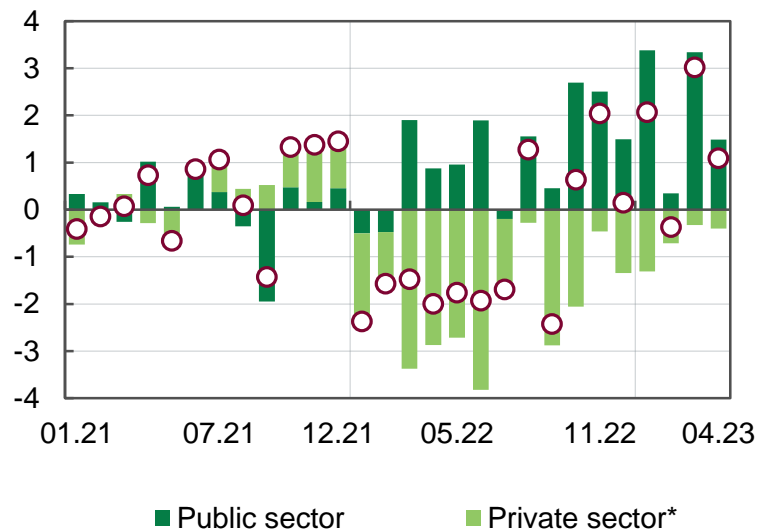


Source: SCSU, NBU staff calculations.

- In April, purchases of petroleum products decreased on the back of substantial stocks, while lower domestic needs led to a reduction in purchases of natural gas and coal. Further decrease in prices of energy carriers on the European market became an additional factor
- Imports of chemical products decreased, reflecting a seasonal reduction in purchases of fertilizers and plant protection goods. The stable situation in the energy sector contributed to the further decline in purchases of emergency power supply equipment. Uncertainty around food exports lowered investment in imported agricultural machinery, trucks and trailers, and selected industrial equipment

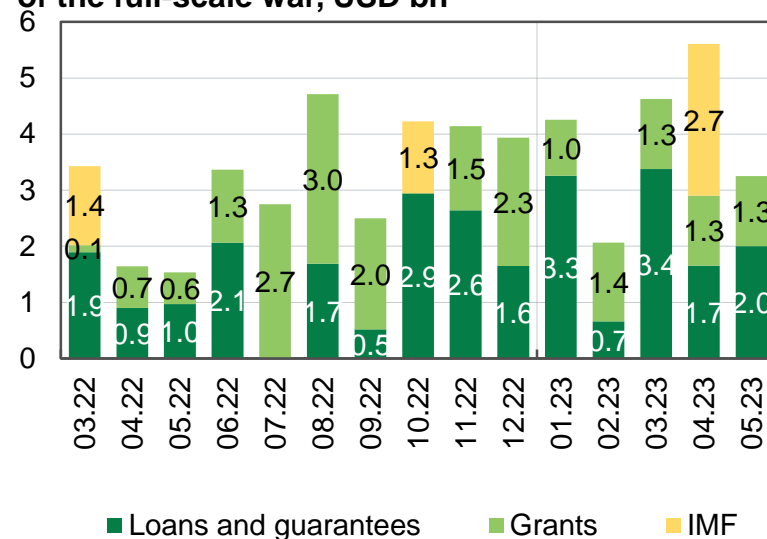
Record-high volumes of official financing since the beginning of the full-scale war ensured net capital inflows...

Financial account: net external liabilities, USD bn



* Including net errors and omissions.
Source: NBU.

International financial assistance since the beginning of the full-scale war, USD bn

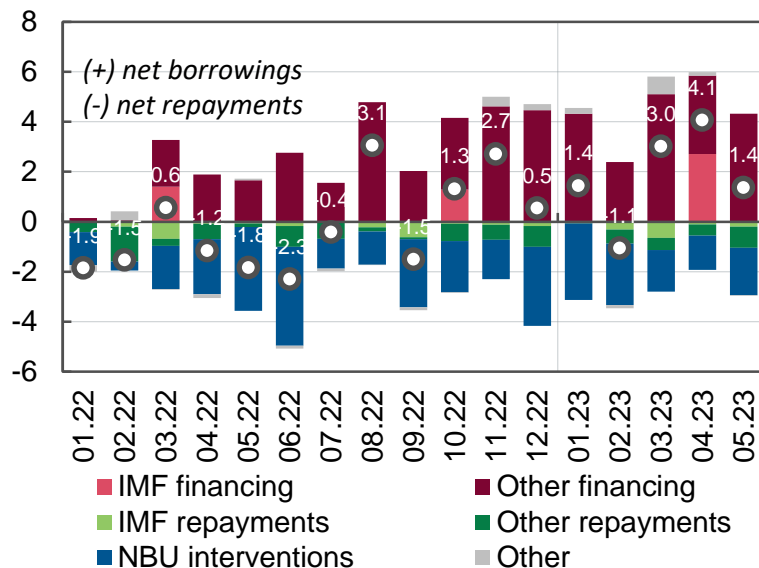


Source: open sources data, MoFU, NBU.

- In April, financing from international partners reached record-high amounts since the beginning of the full-scale war. A loan from the IMF and another tranche of macro-financial assistance from the EU were disbursed. The latter ensured net FX receipts of the public sector
- The capital outflows from the private sector remained limited and were determined by the growth of FX cash outside banks. As a result, net capital inflows were registered under the financial account (USD 1.1 bn)

...and increase in reserves to a level not seen since 2011

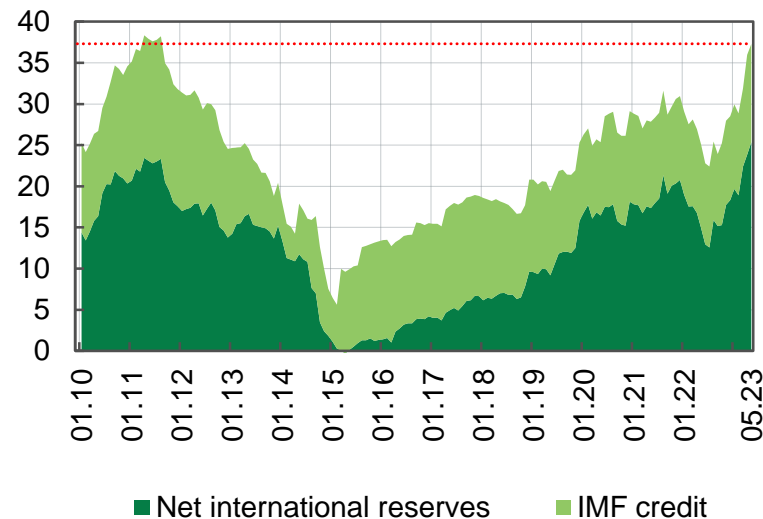
Change in reserves, USD bn



Source: NBU.

- Financial support from international partners remained the key factor determining the dynamics of reserves
- Disbursement of a loan from the EU (USD 1.7 bn) along with the receipt of grant funds from the United States (USD 1.3 bn), and a tranche from the IMF (USD 2.7 bn) brought the amount of official financing in April to USD 5.6 bn. Along with the gradual decline in the NBU's net interventions, this enabled a continued build-up in reserves to USD 35.9 bn as of the end of April – the highest level since 2011
- In May, the inflows of international financial aid continued, tallying almost USD 20 bn since the beginning of the year. As a result, reserves continued to grow, reaching USD 37.3 bn as of the end of May

International reserves, USD bn



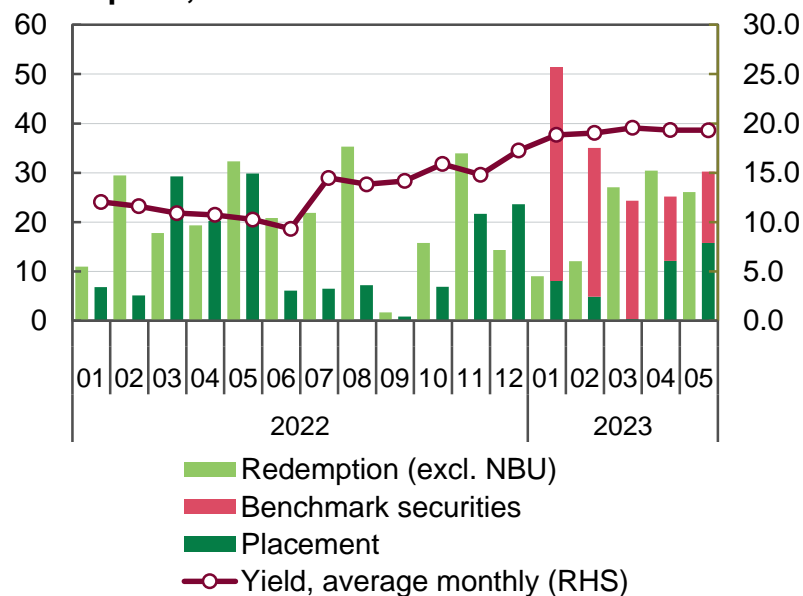
Source: NBU.



Ukraine: Monetary sector

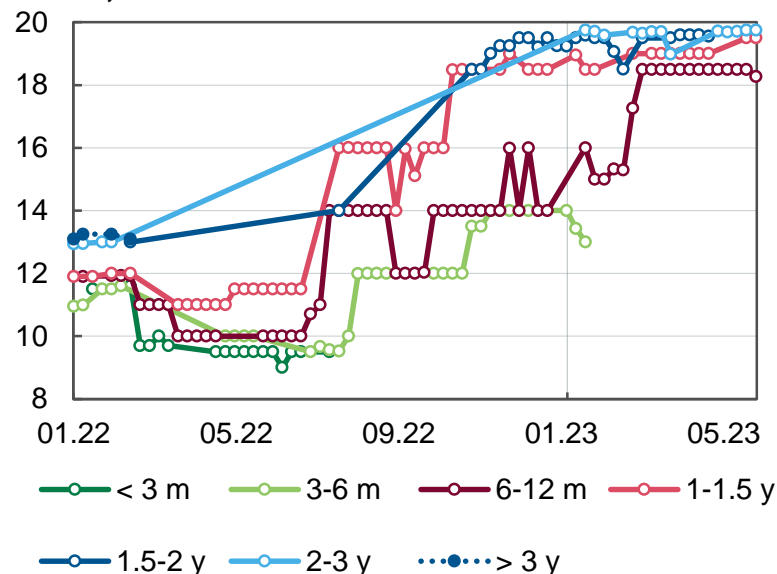
Market demand for domestic government debt securities has been increasing in the primary market

Domestic government bond placement* and redemption, UAH bn and YTM



* Excluding hryvnia bonds issued in December for “Ukrfinzhytlo” recapitalization.
Source: NBU.

Yields on hryvnia government bonds on the primary market, %

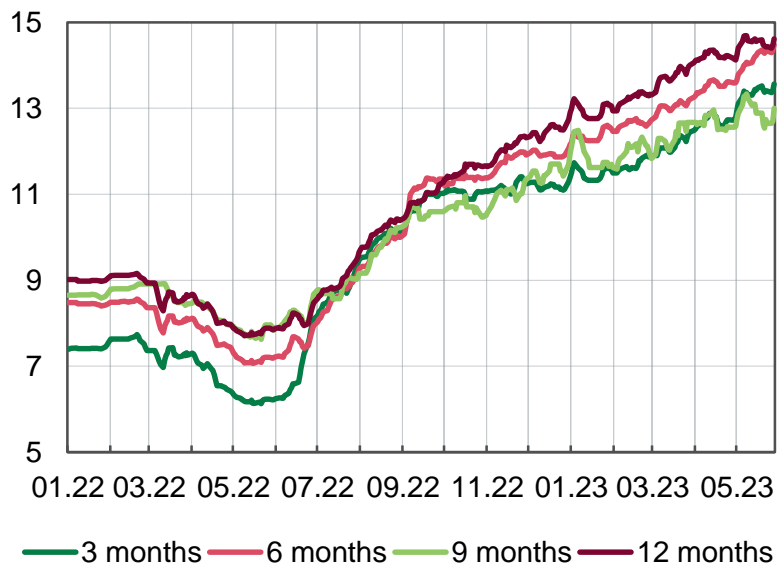


Source: NBU.

- The yields on domestic government debt securities in real terms have been increasing due to the Ministry of Finance’s maintaining nominal yields high and decreasing inflation, which contributed to the gradual recovery of market demand for government bonds
- The share of benchmark securities in total volume of placed government debt securities has been gradually decreasing: 84.1% in January, 86.1% in February, 98.6% in March, 51.9% in April, and 47.7% in May (75.2% since the beginning of the year)

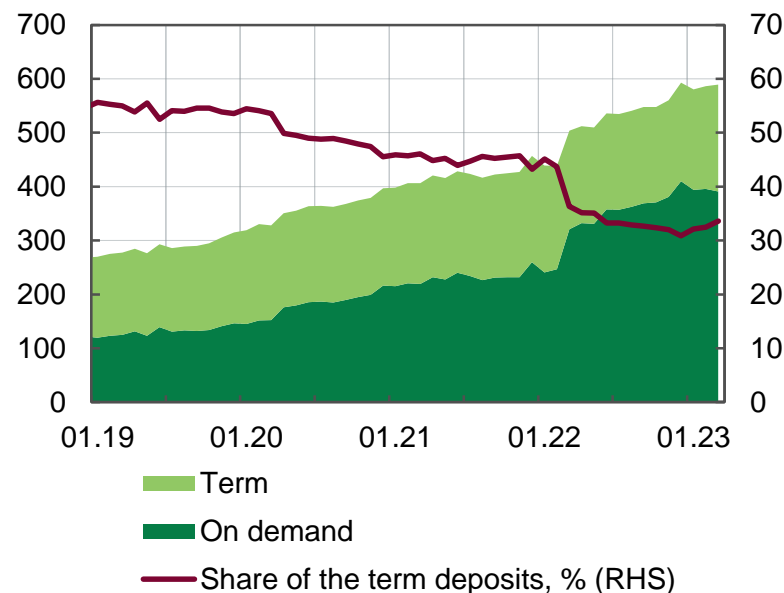
The NBU's measures to make hryvnia assets more attractive helped improved the term structure of retail deposits

Ukrainian Index of Retail Deposit rates*, %



*5-day moving-average.
Source: Thomson Reuters.

Hryvnia deposits of individuals, UAH bn

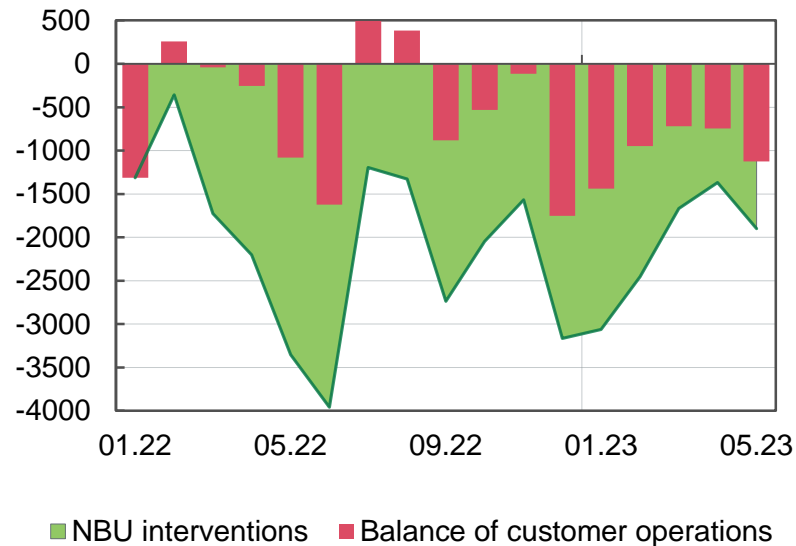


Source: NBU.

- Thanks to the key policy rate being kept at a high level for a long time and additional NBU's measures to make hryvnia savings more attractive, the banks' competition for deposits intensified, with more attractive rates offered, especially for deposits of more than three months
- This reversed the trend of a declining share of hryvnia term retail deposits

NBU's FX sales rose as net demand for foreign currency increased in May

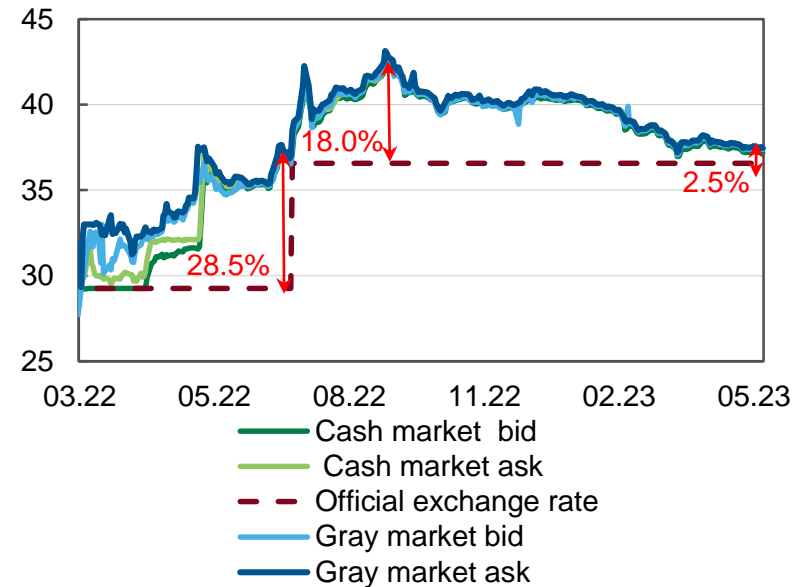
Balance of NBU's and banks' client operations*, USD m



* Net sale and purchase of non-cash and cash foreign currency by bank clients Tod, Tom, Spot.
Source: NBU.

- Demand for foreign currency increased, particularly driven by the machinery and energy sector enterprises. The latter is probably associated with scheduled repair works and the purchase of energy products
- Banks aiming to make settlements with international payment systems also pushed the demand up
- The deviation of the gray market exchange rate from the official rate remained within the narrow range of less than 3%

Exchange rate UAH/USD



Source: NBU, open data sources.