



National Bank
of Ukraine

Monthly Macroeconomic and Monetary Review

July 2023

Monetary Policy and Economic Analysis
Department



Summary

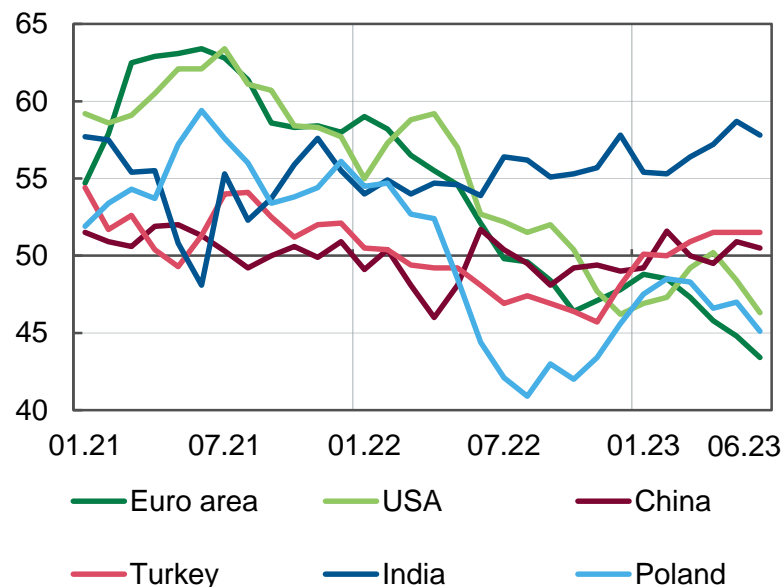
- **Economic growth in Ukraine's MTPs is slowing and inflationary pressures are easing.** Global oil prices fluctuated within a narrow range, while natural gas slightly rose in price due to rising demand. World prices for commodities, prevailing in Ukrainian exports, were quite volatile in the face of multidirectional factors. While **major CBs continue monetary policy tightening** to contain inflation, more and more **EM CBs are moving towards easing**
- **Consumer inflation in Ukraine continued to decelerate** (to 15.3% yoy in May), driven by supply factors and favorable cash FX market conditions. According to the NBU estimates, inflation kept slowing in June as a result of these factors, despite an increase in electricity tariffs
- In June, **economic activity continued to pick up seasonally**, in particular due to the start of the harvesting campaign and the intensification of construction work. However, the blocking of the "grain corridor" operations and the destruction of the Kakhovka HPP hindered transportation, energy sector, and metallurgy
- **Labor demand grew, while supply stabilized.** According to surveys, employment increased slightly, particularly among internally displaced people (IDPs), which supported household incomes. Migration remained active
- In June, the **state budget deficit continued to widen** due to substantial expenditures, primarily on defense and security. As in previous months, **the deficit was covered by international aid and domestic borrowings.** The latter was facilitated by further revival of market demand for government securities, along with the preservation of banks' interest in the benchmark debt securities to meet the reserve requirements
- In May, the merchandise trade deficit widened, but the **current account was almost balanced on the back of resilient inflows of remittances and grants.** Substantial official financing continued to ensure net capital inflows under the financial account and **further accumulation of international reserves**, which reached a historical record of USD 39 bn by the end of June
- The increased attractiveness of hryvnia assets led to further **growth in demand for term deposits. FX market situation was stable**, with NBU's interventions declining somewhat and cash exchange rate fluctuating close to the official rate with a narrow margin



External Environment

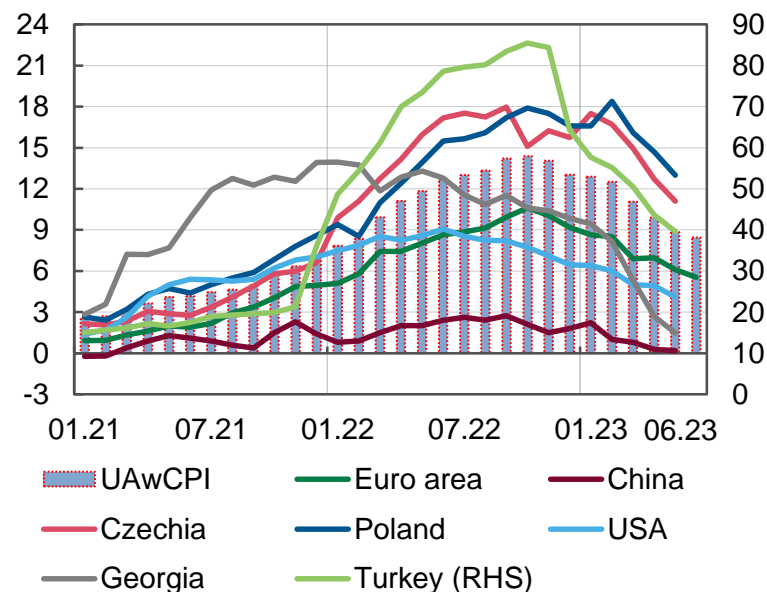
Economic growth in Ukraine's MTPs is slowing and inflationary pressures are easing

Manufacturing PMI of selected countries



Source: S&P Global.

CPI in selected countries and UAwCPI (consumer price index in MTPs of Ukraine), % yoy

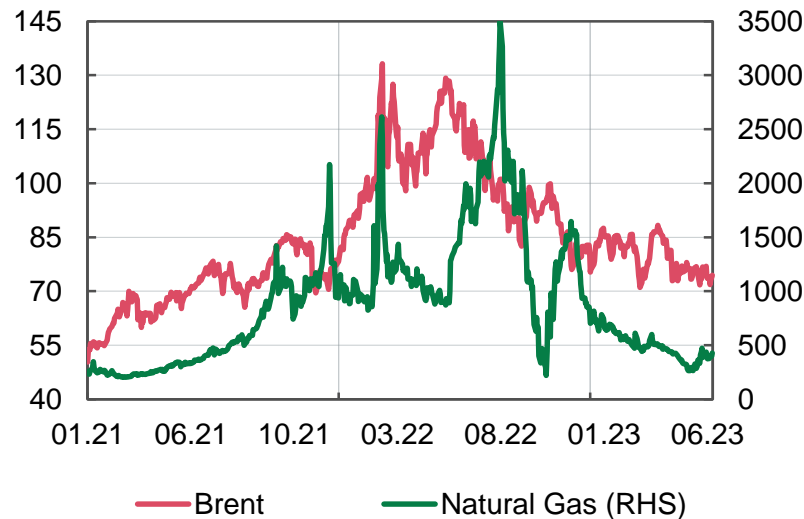


Source: National statistical offices, NBU staff estimates.

- Leading indicators point to an increasingly challenging situation in the manufacturing, due to, among other things, a decline in new orders and tighter financial conditions
- Growth in the services sector continued, albeit at a more moderate pace, indicating a gradual cooling of demand after a rapid pickup in the spring
- Inflationary pressures from Ukraine's main trading partners (UAwCPI) continued to ease. At the same time, services inflation remained relatively resilient, despite a slight slowdown, given strong labor markets

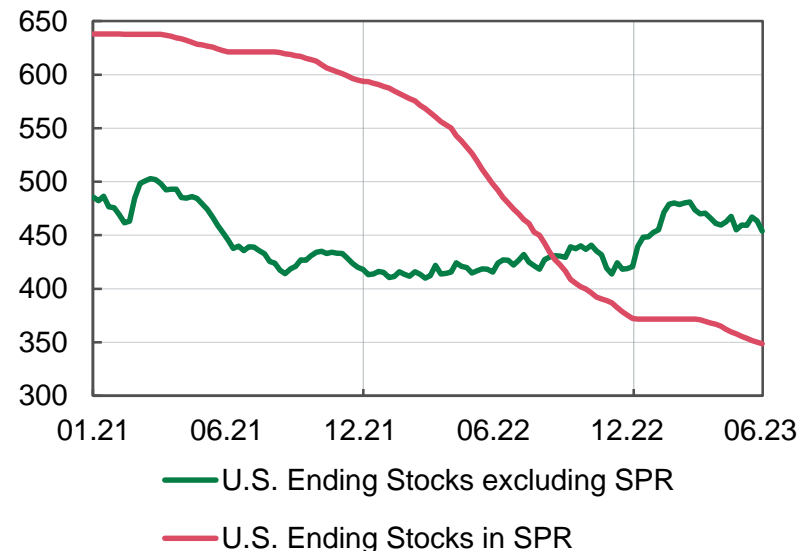
Global oil prices fluctuated within a narrow range, while natural gas slightly rose in price due to rising demand

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

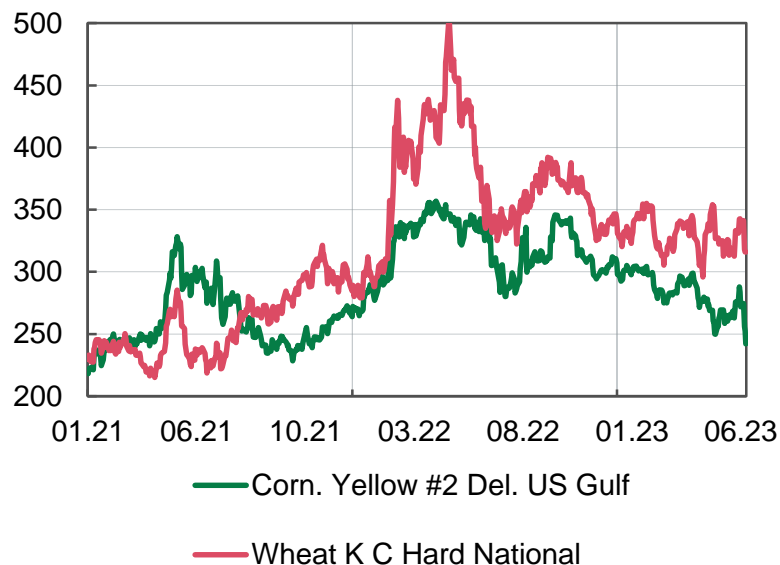


Source: U.S. Energy Information Administration, as of 23.06.23.

- Oil prices fluctuated within a narrow range. The upward pressure on prices due to supply cuts by OPEC+ and additionally by Saudi Arabia, an increased demand from the US in the summer season (amid declining stocks), and interest rate cuts by the People's Bank of China were offset by the weakness in China's new macroeconomic data and monetary tightening by major central banks (which could further depress already weak global demand)
- Gas prices in Europe grew slowly. An increased demand from Asian and European countries due to rising temperatures and the need to replenish stocks for the heating season intensified buyers' competition in the market. An additional factor was the increase in freight rates due to reduced availability of vessels

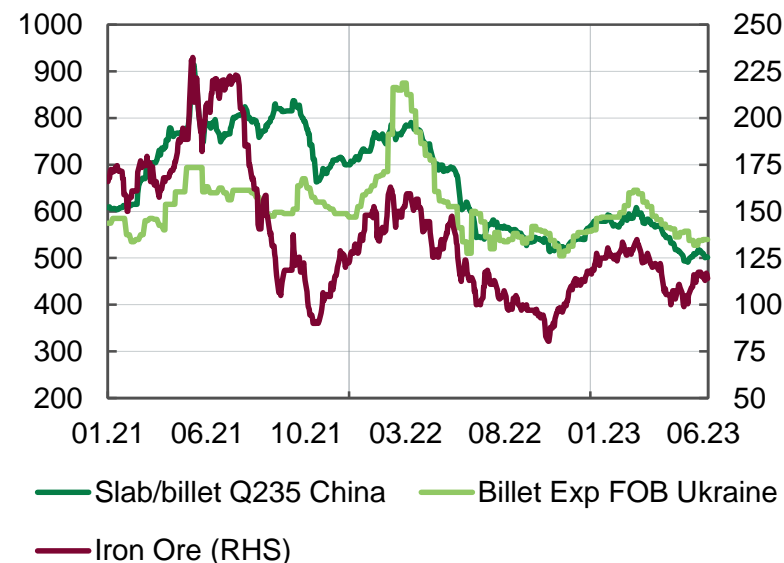
World prices for commodities, prevailing in Ukrainian exports, were quite volatile in the face of multidirectional factors

Global grain prices, USD/MT



Source: Refinitiv.

Global steel and iron ore prices, USD/MT

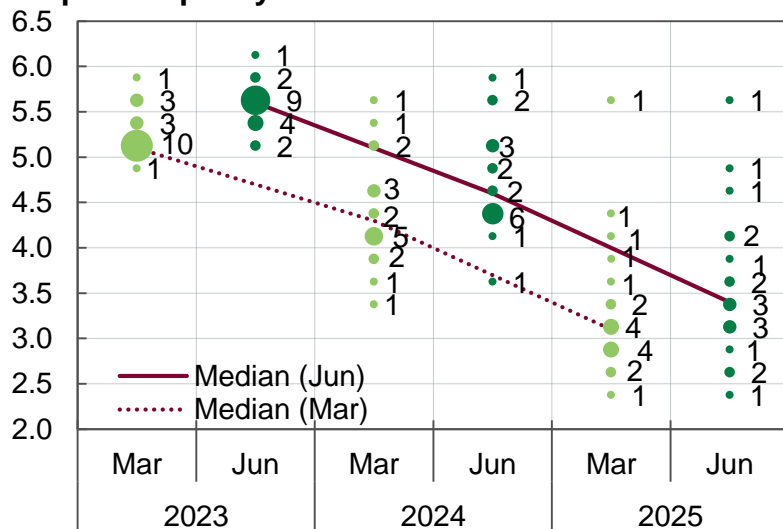


Source: Refinitiv, Delphica.

- Global steel and iron ore prices were influenced by optimistic expectations of a recovery in the Chinese market in response to the announced measures by the country's government and the easing of monetary policy by the People's Bank of China, as well as a reduction in steel stocks at mills. However, weak demand in most regions of the world amid increased supply offset this optimism
- Global wheat and corn prices in June were highly volatile, primarily due to sharp changes in weather conditions. Thus, drought in the first half of the month in both the US and Europe led to a sharp rise in prices, while heavy rains in the second half adjusted them downward. Additional factors of volatility were the increased risks to the 'grain corridor' operation and a positive USDA report on the expected US grain harvest

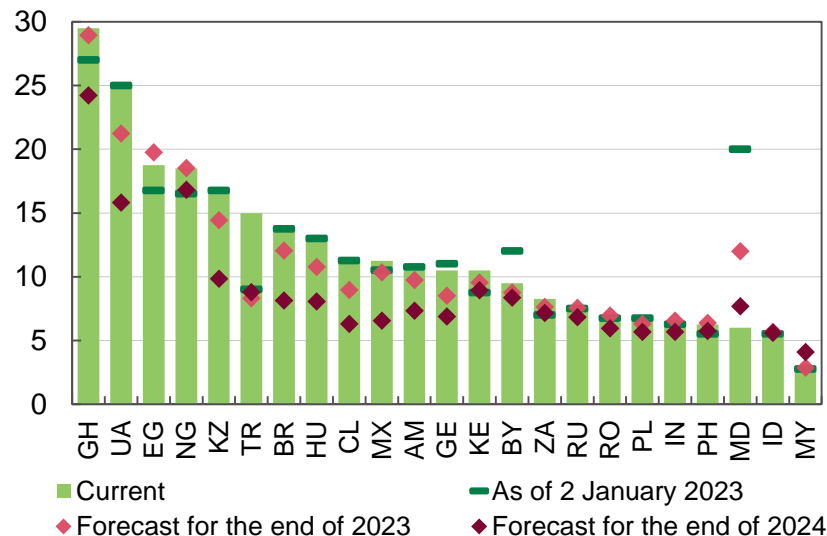
While major CBs continue policy tightening to fight inflation, more and more EM CBs are moving towards monetary easing

The number of FOMC members that expect the respective policy rate



Source: Fed.

Key policy rates in selected EM countries, %



Source: official web-pages of central banks, Focus Economics, Oxford Economics, as of 30.06.23.

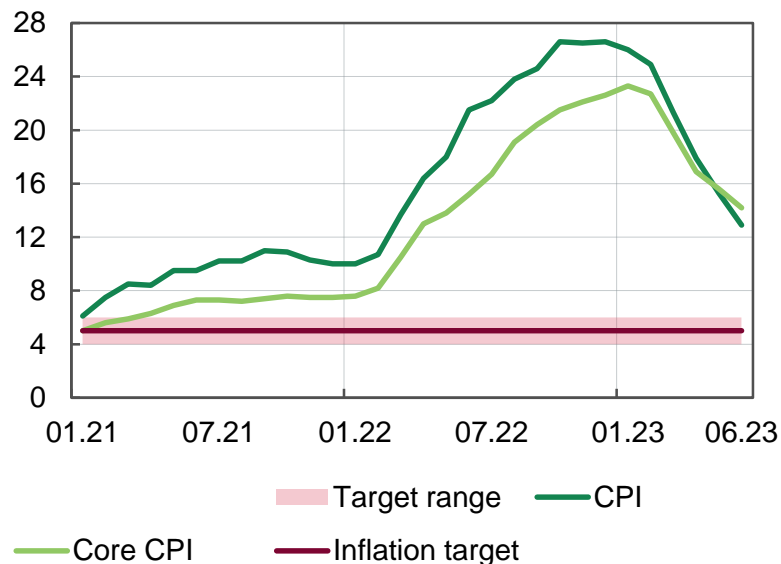
- The Fed** has left the target rate range unchanged, hikes of 50 bps at a ‘careful pace’ are possible by the end of 2023, and a rate cut will not happen soon. Traders expect another 25 bps increase in July and a rate cut in the first half of 2024. **The ECB** has raised its rates, will continue monetary tightening and will probably keep rates at their maximum level for longer. Investors expect a rate hike in July and September and a rate cut in 2024. Unlike the Fed and the ECB, which acted in line with expectations, **the Bank of England and CB of Norway** surprised with hawkish decisions, raising their rates by 50 bps
- More and more **EM CBs** (of Armenia, Uruguay, the Dominican Republic, and Sri Lanka) are joining the group of countries that are slowly moving towards monetary policy easing. The CB of Chile has signaled a possible rate cut in the short term. By contrast, the CB of Turkey has returned to the orthodox policy, raising its rate by 650 bps, and it plans to continue tightening



Ukraine: Inflation

Consumer inflation decelerated faster than expected

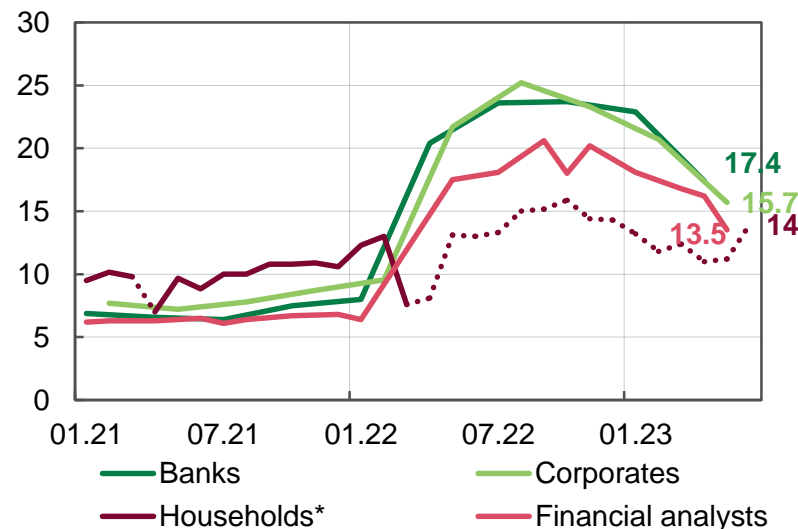
Inflation* and inflation target, % yoy



* Data for June reflects nowcast.

Source: SSSU, NBU staff estimates.

Inflation expectations for the next 12 months, %



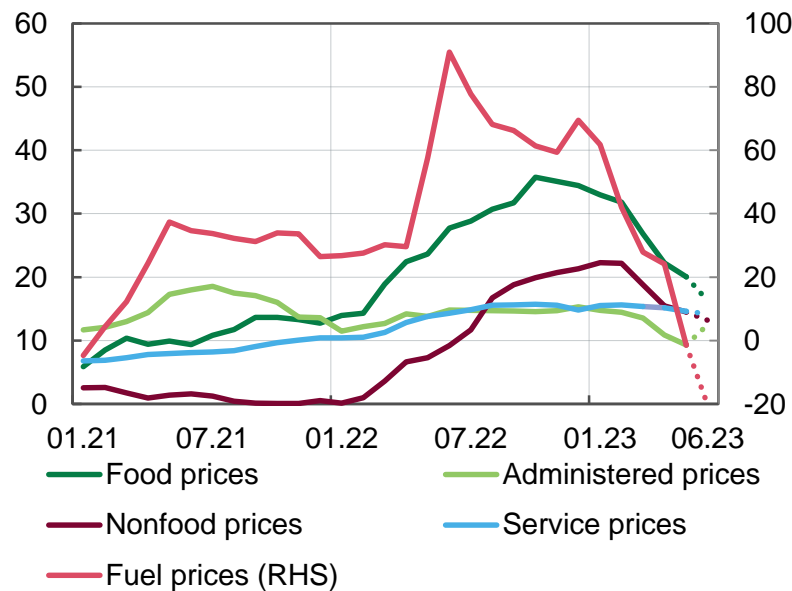
* The dotted line indicates a change in the method of survey for a telephone interview.

Source: NBU, GfK Ukraine, Info Sapiens.

- Food supply factors, the strengthening of the hryvnia in the cash FX market, and improved inflation and ER expectations contributed to the slowdown in inflation. According to the NBU estimates, these factors continued to slow inflation in June, overweighted the impact of the increase in electricity tariffs
- Underlying inflationary pressures are declining in line with the NBU's expectations. This was driven by improved inflation and exchange rate expectations amid favorable cash FX market conditions and reduced cost pressures against the backdrop of a stable energy sector

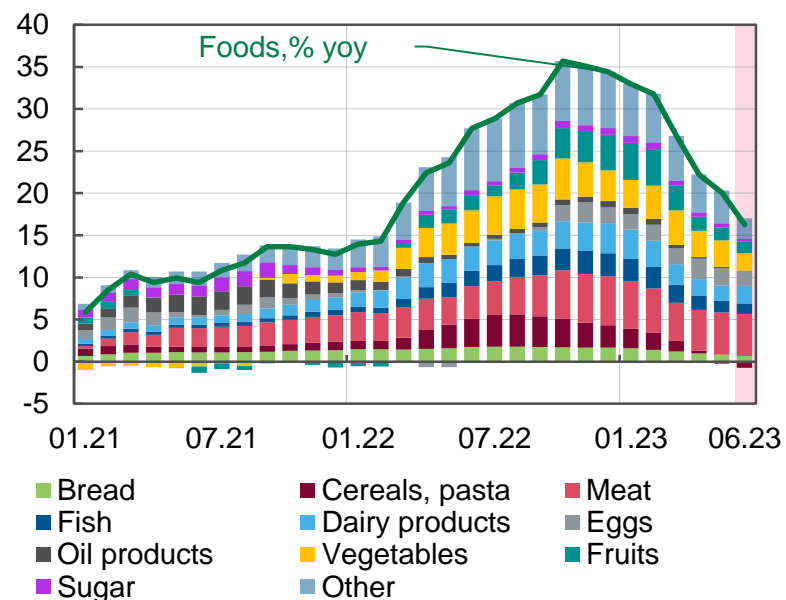
Inflation declined due to strengthening of hryvnia in cash FX market, a robust supply of food...

Selected CPI components*, % yoy



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

Contributions to the annual change in food prices*, pp

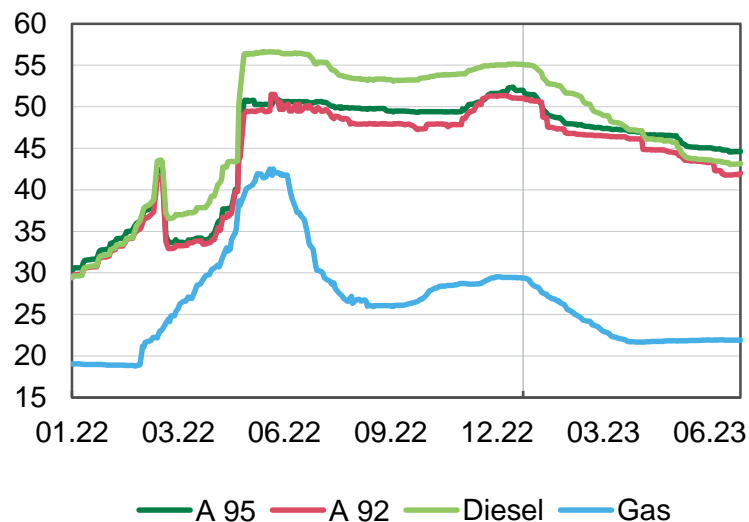


* Data for June reflects nowcast.
Source: SSSU, NBU staff estimates.

- Food prices continued to rise more slowly, in part due to an easing of pressures from raw material and fuel costs, and the recovery of production and logistics chains
- Lower export prices, as well as restrictions on food transit through neighboring EU countries, slowed the rise in prices for dairy products and sunflower oil. Prices for cereals and flour continued to decline due to low export prices and sufficient grain stocks to meet domestic needs
- Growth in prices for greenhouse vegetables also slowed, mainly due to an increase in supply. The same factor led to a month-on-month decline in egg prices, although the annual growth rate remained high due to the base effects and increased exports

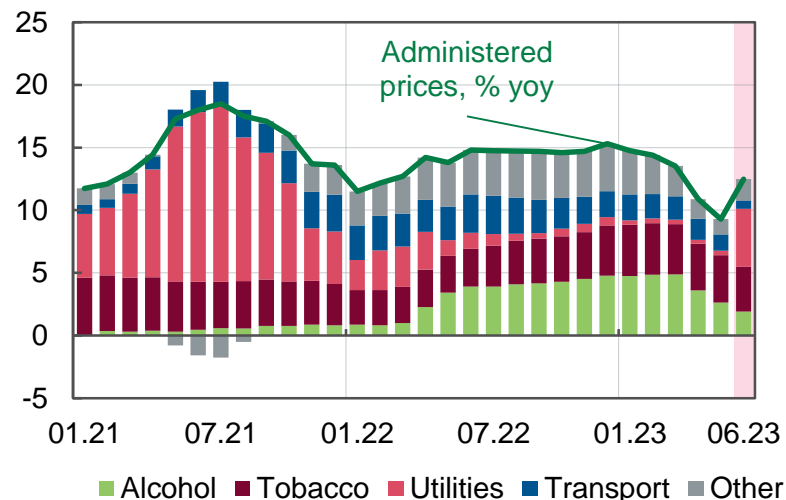
... significant fuel stocks, which offset the effects of higher electricity tariffs

Fuel prices, UAH / L



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

Contributions to the annual change in administered prices, pp



* Data for June reflects nowcast.

Source: SSSU, NBU staff estimates.

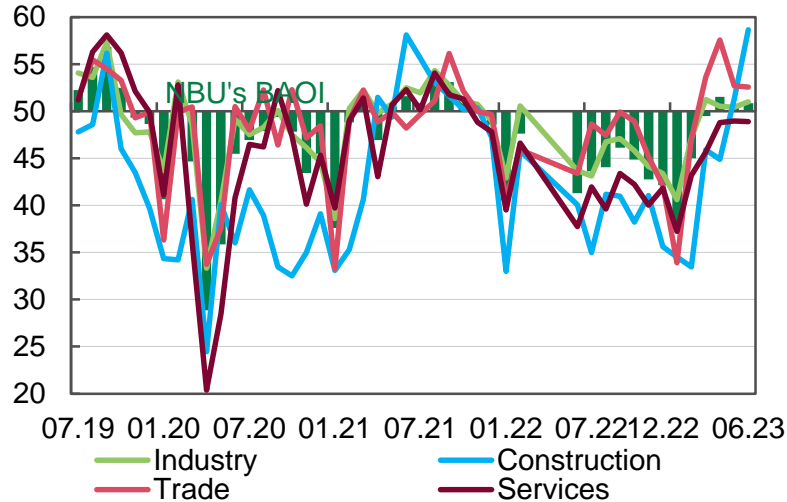
- In June, fuel prices continued to decline given substantial stocks, lower global oil prices, increased competition, and a high comparison base
- Rapid deceleration in price growth for alcoholic beverages was driven by moderate demand and improved exchange rate expectations amid the base effect
- Tobacco prices also increased somewhat more slowly. In addition to the exchange rate factor, this likely reflected pressure from shadow supply
- Instead, in June, electricity tariffs for households were raised slightly more than the NBU had expected, which however did not prevent inflation from decreasing further



Ukraine: Economic activity

In June, economic activity picked up seasonally, thanks in particular to construction, services and agriculture...

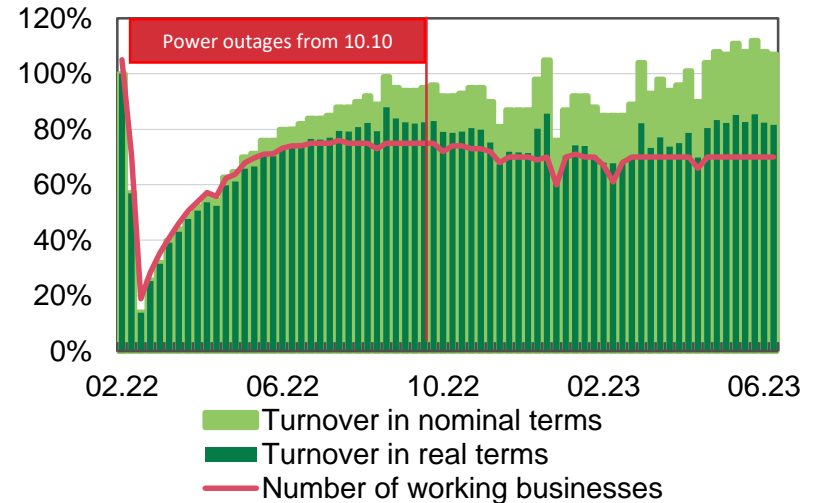
NBU's business activity outlook index, p



07.19 01.20 07.20 01.21 07.21 01.22 07.22 12.22 06.23

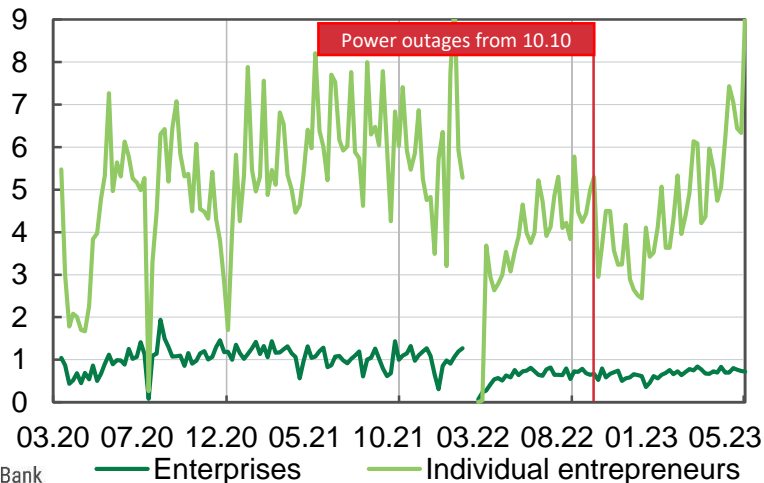
Survey was not conducted from March to May 2022.
 Source: NBU.

Performance indicators of the restaurant industry, %



Source: SSSU, Poster, NBU staff estimates.

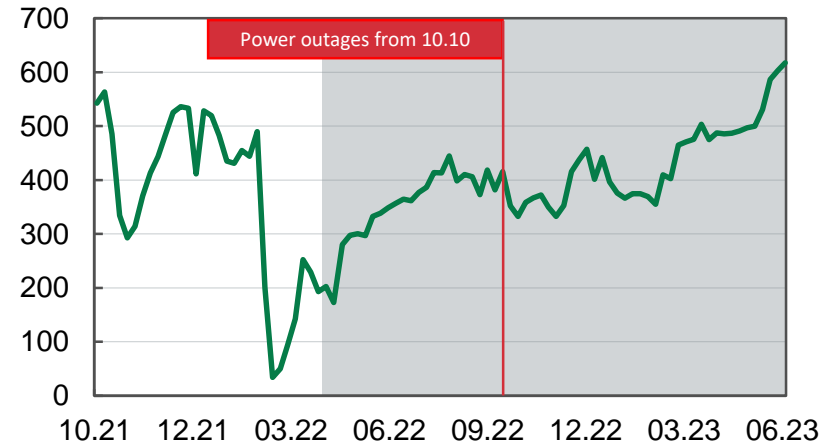
New business registrations, thousands



03.20 07.20 12.20 05.21 10.21 03.22 08.22 01.23 05.23

National Bank of Ukraine
 Source: opendatabot.ua.

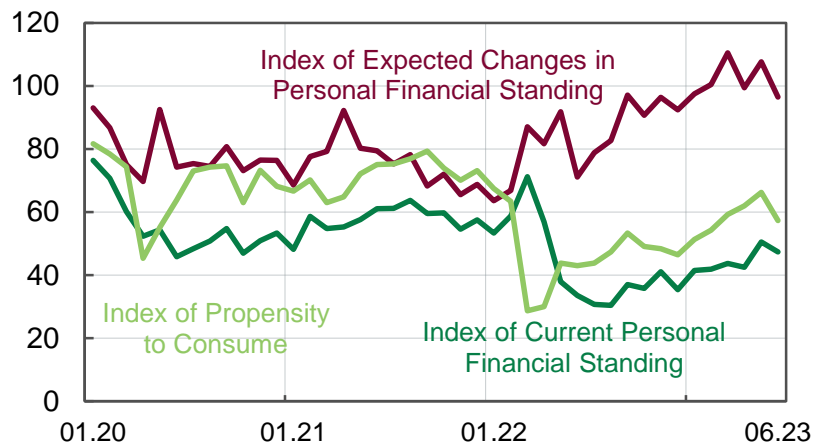
Number of UZ tickets sold per week, thousands



Source: UZ.

The destruction of the Kakhovka HPP and the blocking of the "grain corridor" had a negative impact on sentiments...

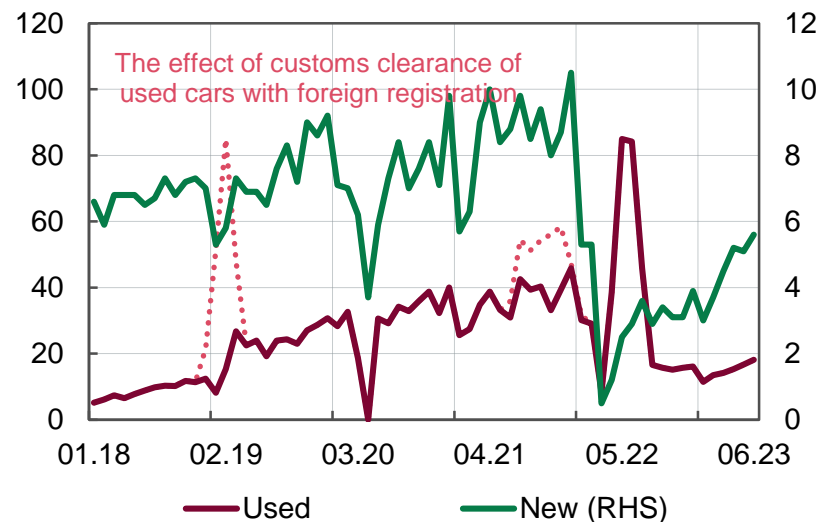
Components of the consumer sentiment index, p.



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

Source: Infosapiens.

The first registration of passenger cars, thousand units

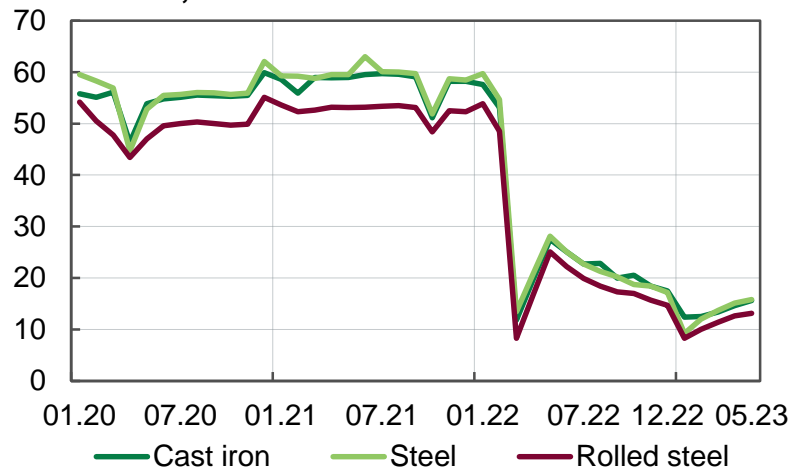


Source: Ukravtoprom.

- Although consumer sentiments remained high, they weakened somewhat in June, probably driven by the consequences of the Kakhovka HPP destruction
- However, economic activity picked up seasonally. Thus, sales of new cars in June increased by 9.4% mom
- The harvesting of winter crops has started, albeit later than last year. At the same time, the crop yields were 46% higher than last year
- Construction works picked up, including against the backdrop of housing and infrastructure reconstruction (in particular, due to the shift in demand for housing and economic activity to the western regions). This supported sales of construction materials and finished metal products
- Beverage manufacturers resumed operations and increased capacity utilization, although low demand held back dairy processing
- The needs of miners and railway carriers supported the loading of engineering enterprises, and the needs of the army and rescuers – loading of the manufacturers of special equipment

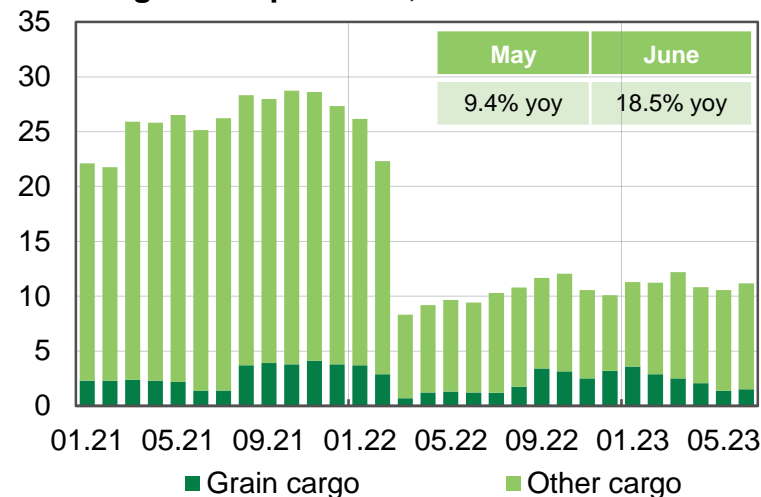
...and business activity in certain sectors

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



Source: Ukrmetallurgprom.

Rail freight transportation, m t



Source: SSSU, Rail.insider, UZ

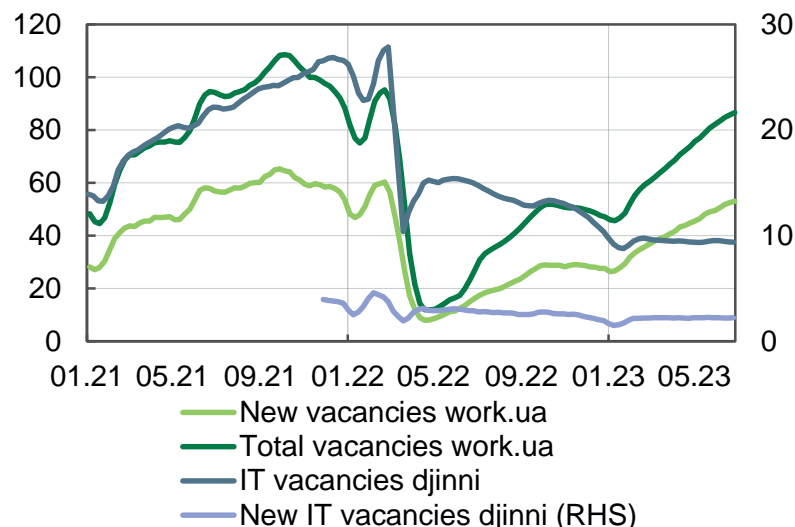
- [Revival](#) of construction and [orders from railway enterprises](#) supported metallurgy, although a number of companies [reduced their capacity utilization](#) due to the lack of water after the destruction of Kakhovska HPP. MPPs and [mining enterprises](#) were less affected. Capacities were expanded in [coal](#) and [gas production](#), although in smaller volumes than in May
- In June, electricity production decreased amid a large-scale [summer repair campaign](#) and a decrease in HPP generation due to the [end of the flooding](#) and with the aim of containing the consequences of the [Kakhovska HPP destruction](#)
- Blocking of the "grain corridor" operations (average daily volumes of shipments [decreased](#) by 16% mom, and the number of inspected vessels – by 37% mom), as well as the export restrictions by the EU countries restrained transportation; at the same time, rail traffic [picked up](#) somewhat compared to May (+6% mom and +18.5% yoy), in particular [due to grain cargoes](#)



Ukraine: Labor market

Demand for labor continued to grow, partly due to seasonality...

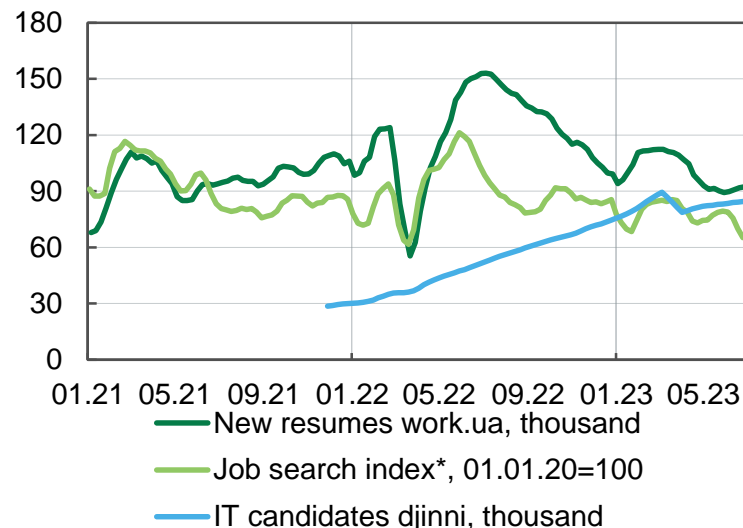
Labor demand, four-week average



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

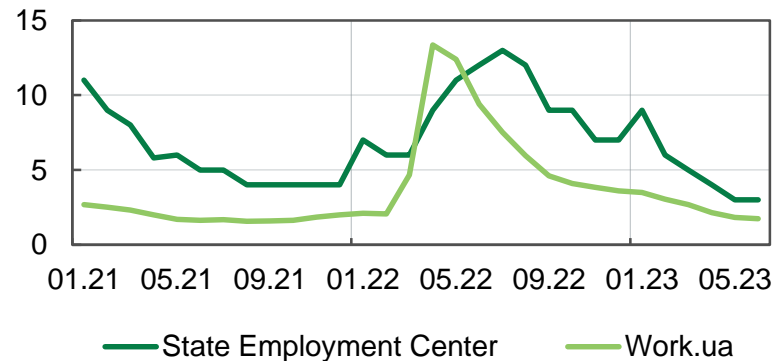
- The increase in the number of job offers indicated stronger demand for labor. However, this was partly seasonal, driven by a pickup in construction and agriculture
- At the same time, labor supply remained stable

Labor supply, four-week average



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

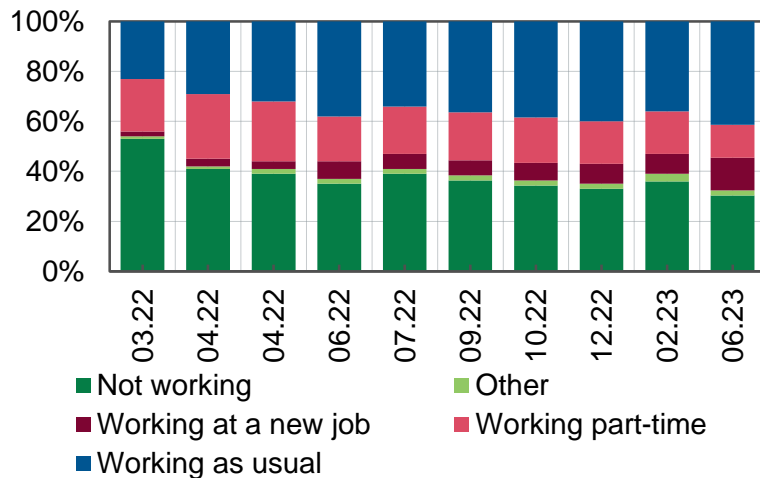
The number of candidates per job opening



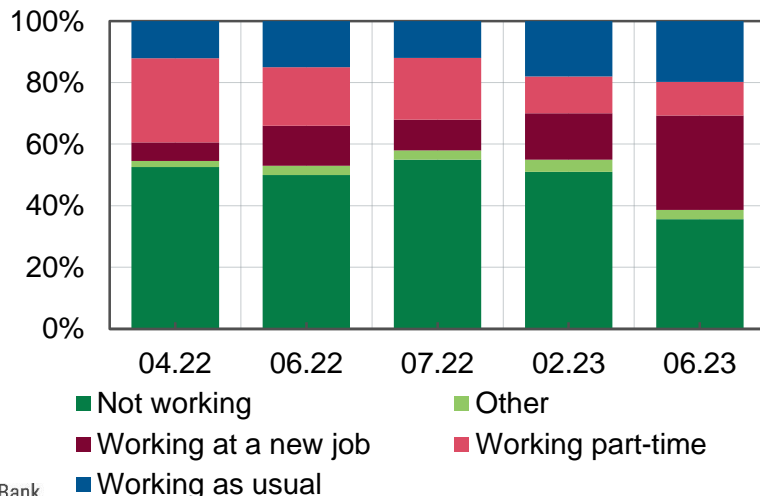
Source: work.ua, SESU, NBU staff estimates.

...which supported the employment of Ukrainians, including IDPs, and their incomes

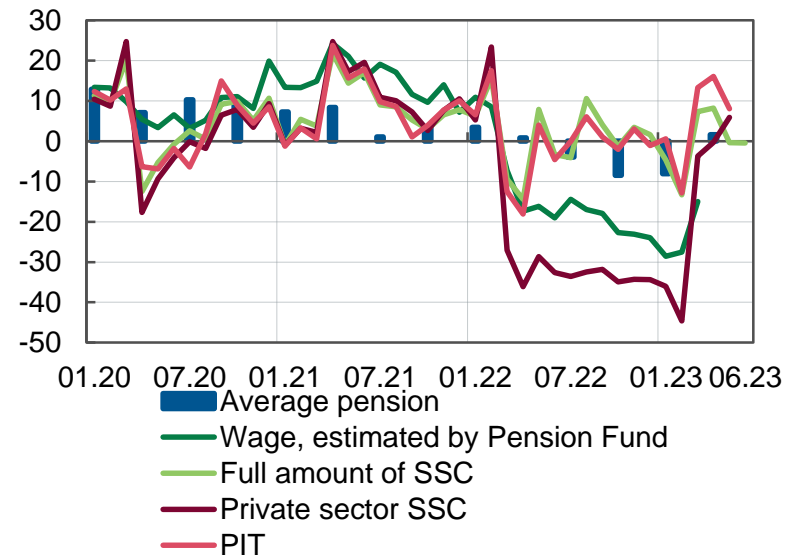
Current status of those who had a job before 24.02.2022, % of responses
Among all respondents



Among IDPs



Indirect indicators for estimating real household income*, % yoy

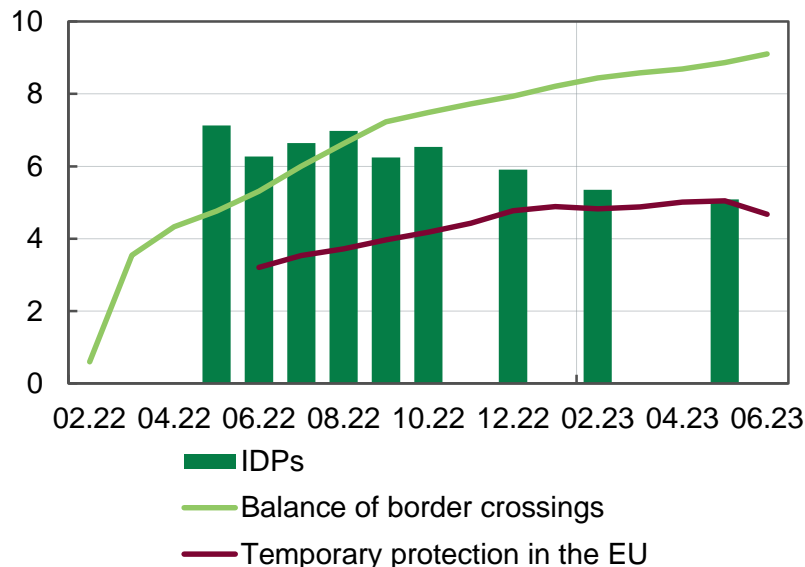


* Deflated by CPI. Source: Pension Fund of Ukraine, SSSU, STSU, NBU staff calculations.

- According to the Rating's surveys, the share of those who are not working has decreased compared to the beginning of 2023 (more markedly among IDPs)
- Increased competition for labor and persistent imbalances in the labor market (regional and skill mismatches), including in particular due to still active migration, amid the low comparison base, led to a renewal of wage growth

UNHCR has revised its estimates of the number of migrants outside Ukraine. However, migration is still active

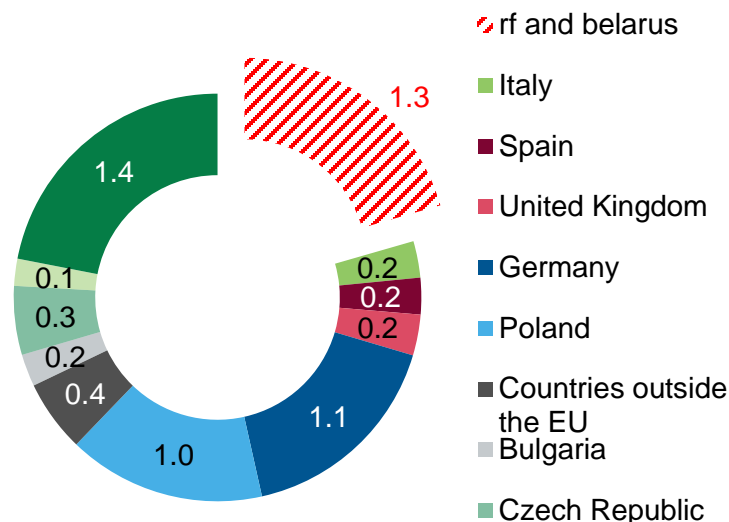
Number of citizens who crossed the border of Ukraine, incl. those with temporary protection status in the EU, and IDPs, million people



Source: [UNHCR](#), IOM.

- The number of [registered IDPs](#) reached 3.6 million as of 30 April, [IOM estimates](#) the number of IDPs at the beginning of 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
- The number of people with temporary protection in the EU remained significant. The return of citizens was likely hampered by the intensification of shelling in May and the destruction of the Kakhovka HPP in early June
- In June, the UN changed its approach to estimating the number of Ukrainian migrants. Previously, the estimate was based on border crossings (the difference between departures and returns). Now it is based on the number of migrants with temporary protection status or similar as of the date reported by recipient countries. This led to a significant decrease in the estimate of the number of migrants: from 8.2 million to 6.3 million, partly due to a reduction in data for russia and belarus (from 2.9 to 1.3 million)

Structure of Ukrainian migrants by country, as of 26.06.2023, million people*



* In all countries, except russia and belarus, migrants are defined as those with temporary protection status or similar.

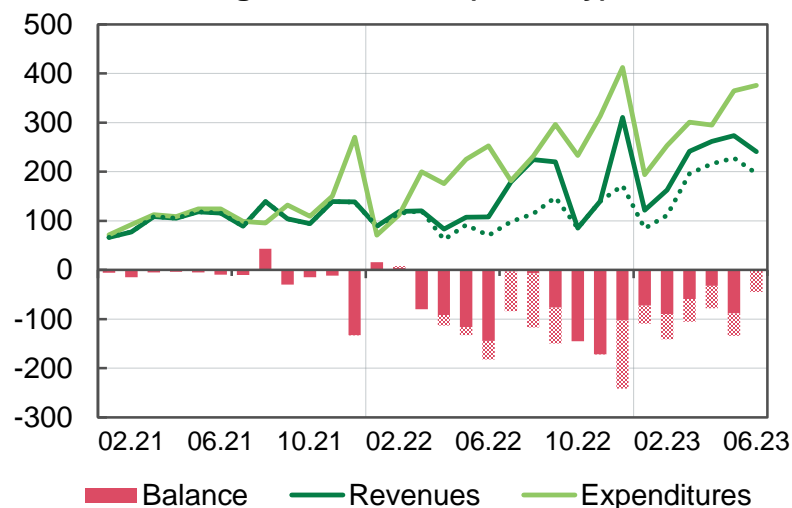
Source: [UNHCR](#).



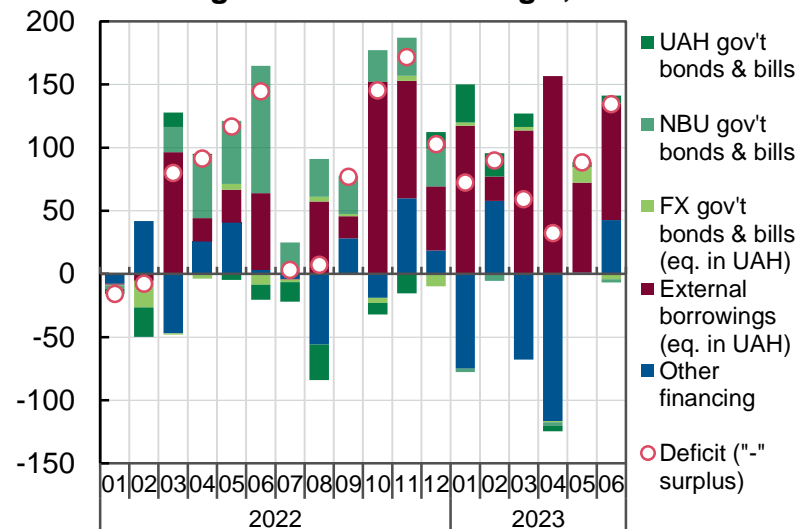
Ukraine: Fiscal sector

In June, the state budget deficit further widened ...

Main state budget indicators* (monthly), UAH bn



State budget balance financing**, UAH bn



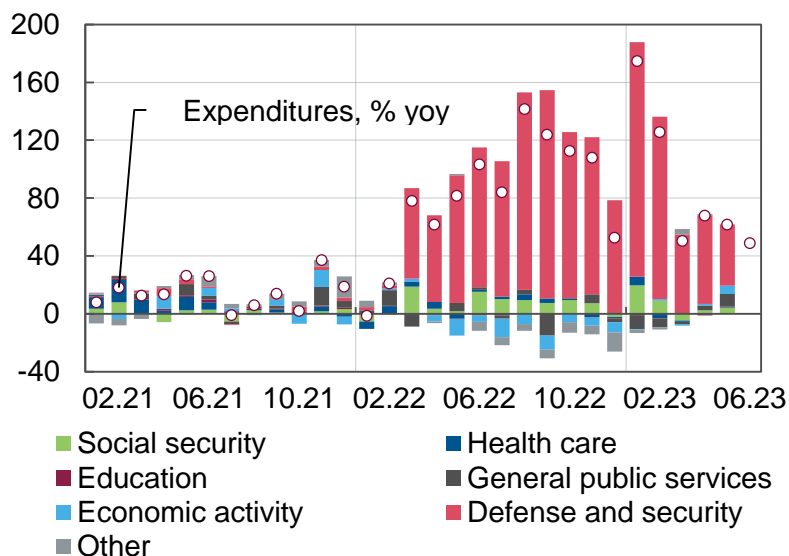
* Dotted and patterned fillings show relevant indicators excluding grants. Balance includes net lending. ** Debt transactions are net borrowings. Other financing represents active operations (in particular, includes the change in volumes of gov't funds) and privatization.

June – preliminary and high-frequency data from the MFU website. NBU calculations based on the MoF's website information. Source: Treasury, MoF, NBU staff estimates.

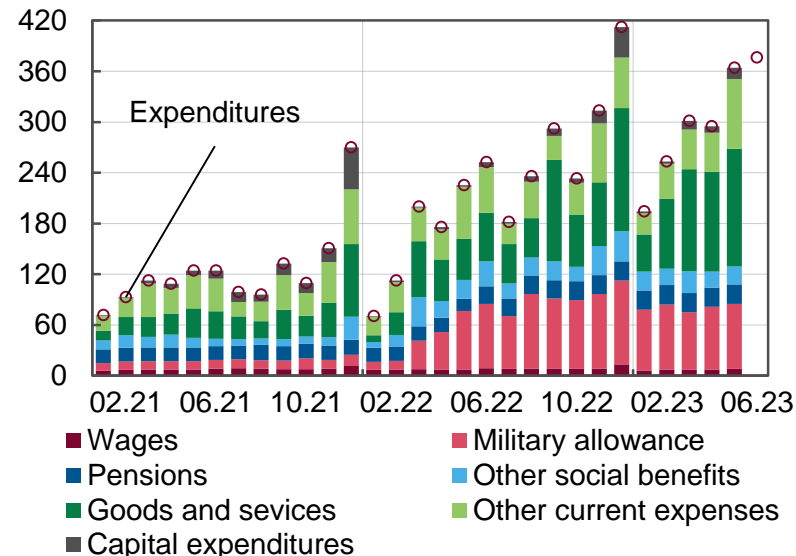
- In June, the state budget deficit reached almost UAH 179 bn (excluding grants in revenues), which was significantly lower only to that of December 2022. In Jan - Jun 2023, the deficit stood at almost UAH 746 bn excluding grants in revenues (UAH 476.3 bn including grants)
- Over the first 6 months of 2023, the deficit and debt redemptions were covered by:
 - international aid: USD 23.6 bn (of which loans accounted for USD 16.2 bn). In particular, in June the aid was at USD 3.8 bn, of which USD 890 million were received within the IMF program framework;
 - domestic borrowings (UAH 285.7 bn) taking into account the revival of market demand for government securities, as well as the preservation of banks' interest in benchmark domestic debt securities in recent months to meet the reserve requirements

... due to the growth in expenditures, in particular to support the defense capability

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



Expenditures of the state budget, UAH bn (economic classification)

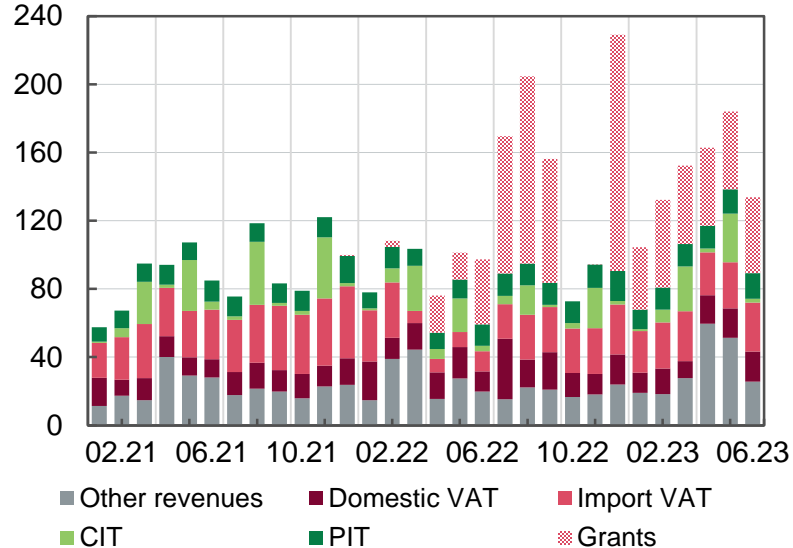


* June – preliminary data from the MFU website. NBU calculations based on the MoF website information.
Source: Treasury, MoF, NBU staff calculations.

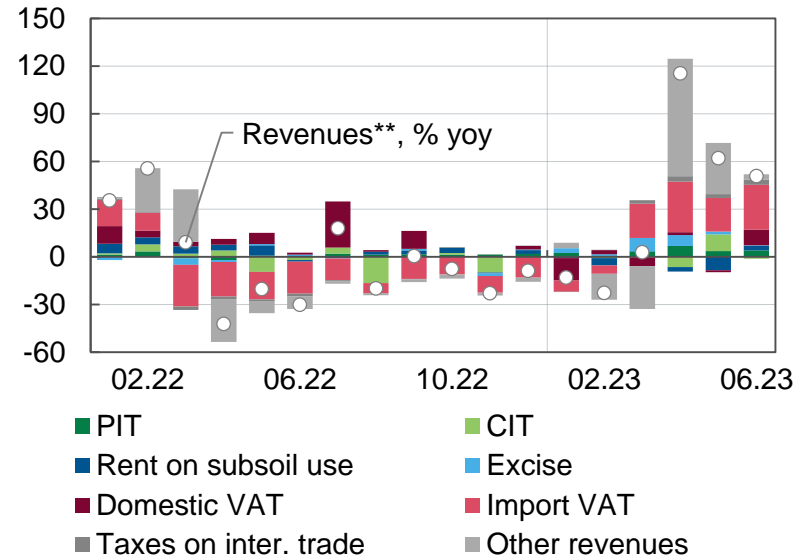
- Although expenditure growth slowed in annual terms, the pace remained significant, and the monthly volumes were the second-largest after December 2022
- Defense and security remained the priority for spending, in particular, the funds were aimed at the logistical support of the Armed Forces of Ukraine. At the same time, capital expenditures probably remained significant, in particular due to the intensified infrastructure restoration and repair, as well as the elimination of the consequences of the Kakhovka HPP explosion

Own resource base of the budget remains weak

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



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



* June – 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.

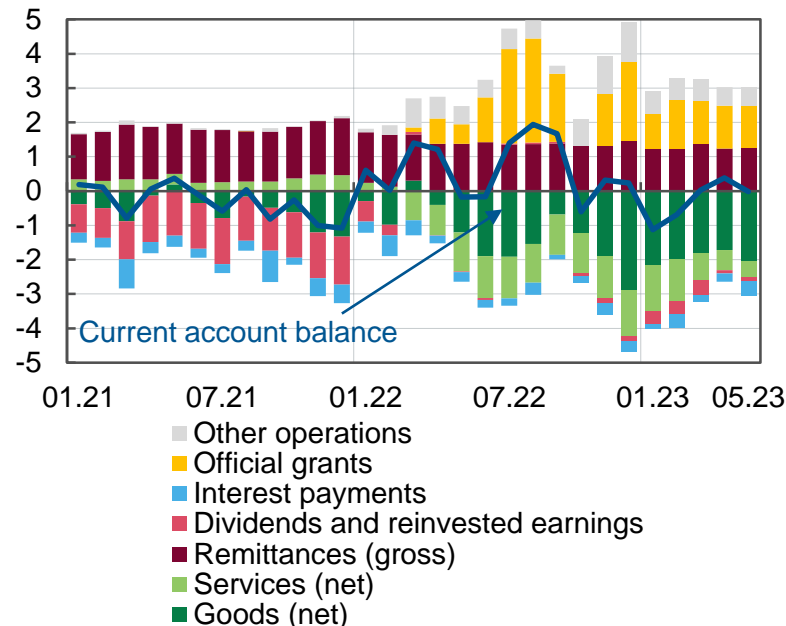
- The tax revenues performance is gradually improving, which reflects the revival of economic activity and domestic demand, as well as a somewhat better tax administration
- However, in general, the budget's resource base remains weak: own revenues in Jan - Jun 2023 amounted to only 36% of the state budget general fund needs (expenditures and debt redemptions)
- Grant funds, which arrive on a regular and predictable basis, remain one of the key sources for covering budgetary needs. Grants provided a third of the general fund's revenue over the first 6 months of 2023



Ukraine: Balance of Payments

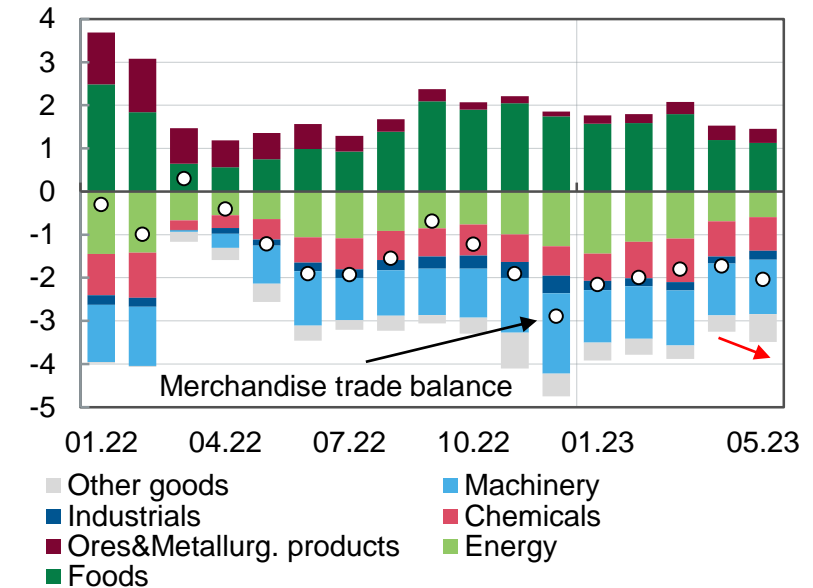
Merchandise trade deficit widened, but current account was almost balanced on the back of the inflows of remittances and grants

Current account balance, USD bn



Source: NBU staff calculations.

Merchandise trade balance, USD bn

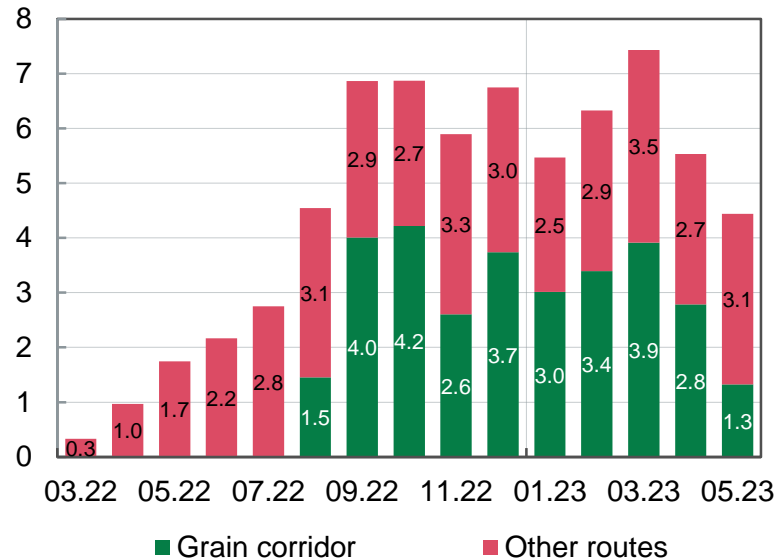


Source: NBU staff calculations.

- In May, the merchandise trade deficit widened compared to April due to increased imports of defense products and consumer goods, while exports of goods remained largely unchanged
- Meantime, the deficit in trade in services slightly narrowed, supported by a modest increase in the exports of IT services
- The receipt of another grant from the USA and resilient remittances restrained the current account deficit from widening further

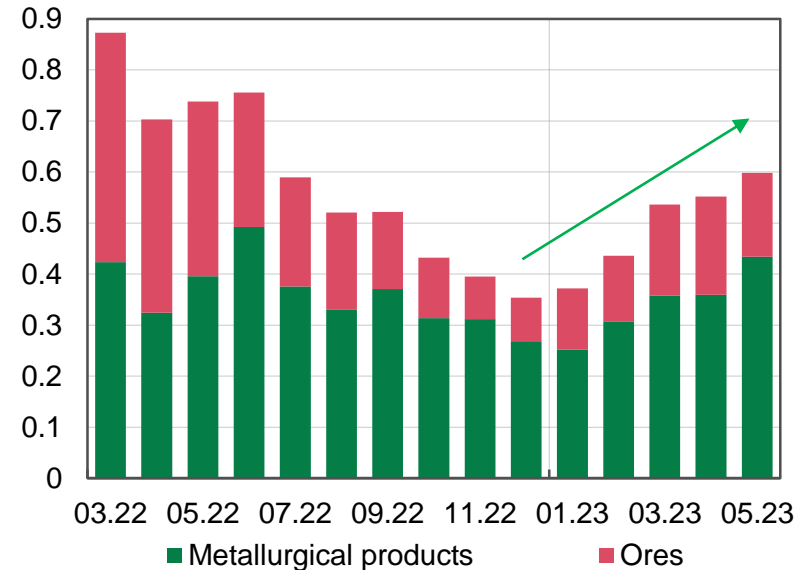
Export of goods remained flat from April as the recovery in metallurgical product exports offset the decrease in food supplies

Exports of agro-industrial products*, m t



* Grains, oil seeds, oilcakes, sunflower & soybean oils.
 Source: Ministry of Agrarian Policy and Food of Ukraine, Black Sea Grain Initiative JCC.

Exports of ores&metallurgical products, USD bn

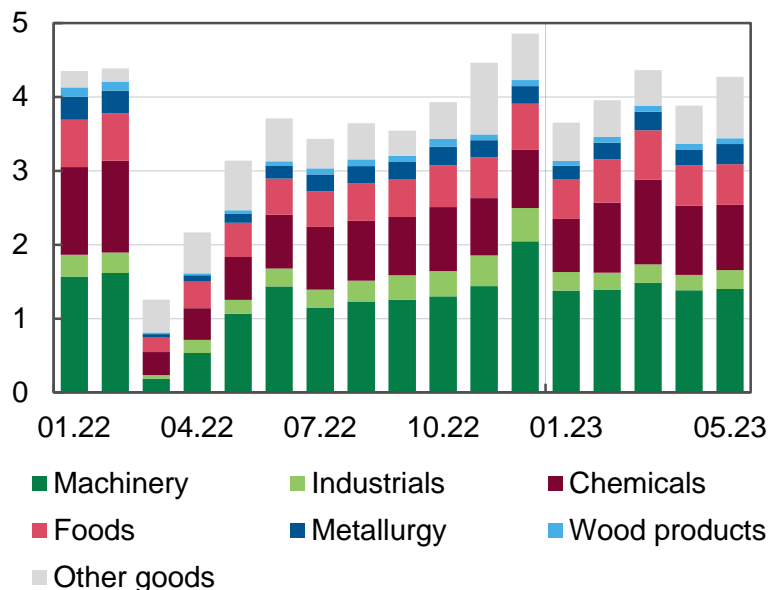


Source: NBU.

- In May, the grain corridor showed its lowest level of shipments since its inception due to increased obstruction measures by Russia. However, this was partially offset by increased supply through alternative routes, facilitated by the resolution of transit issues to the EU and intensified exports via Danube ports. As a result, food exports saw only a slight decline
- The recovery of metallurgical exports continued, driven by increased throughput and the availability of logistics capacities, primarily due to reduced demand for iron ore from European metallurgists

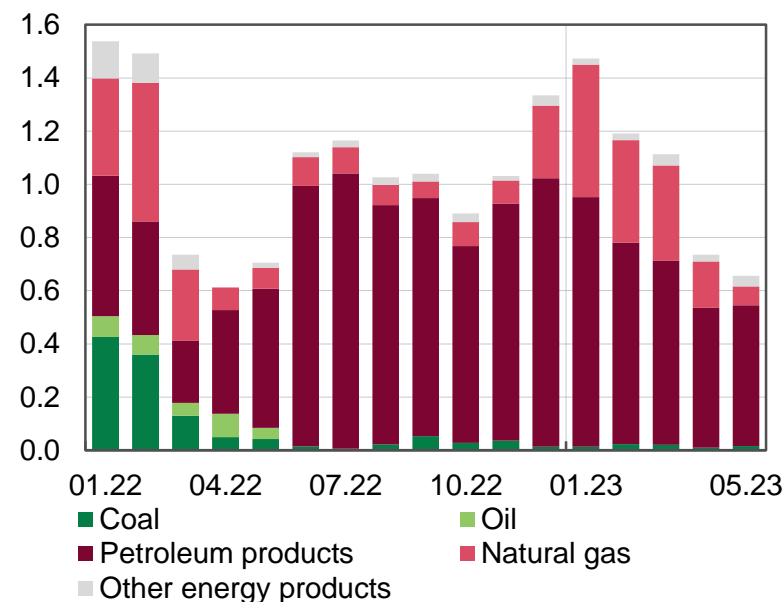
Imports of goods grew, primarily on account of purchases of defense and consumer goods

Non-energy imports, USD bn



Source: NBU staff calculations.

Energy imports, USD bn

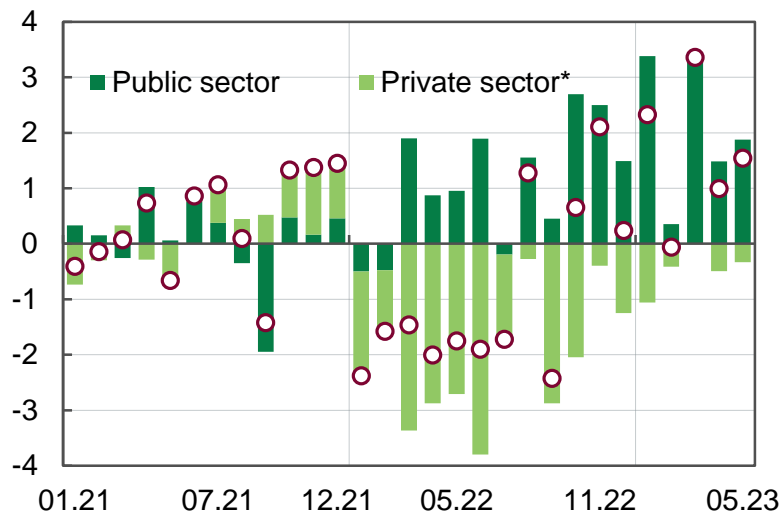


Source: NBU.

- In May, [customs data showed](#) a significant rise in purchases of defense products. The improvement in consumer sentiments contributed to an increase in imports of food and industrial goods, household appliances, and motorcars. Imports of metallurgical products also increased on the back of infrastructure restoration, while scheduled repairs at energy facilities led to an increase in purchases of some machinery products
- Energy imports decreased compared to April due to lower purchases of natural gas resulting from increased domestic production. Additionally, lower prices balanced out the build-up in purchases of petroleum products by farmers

Substantial official financing ensured net capital inflow...

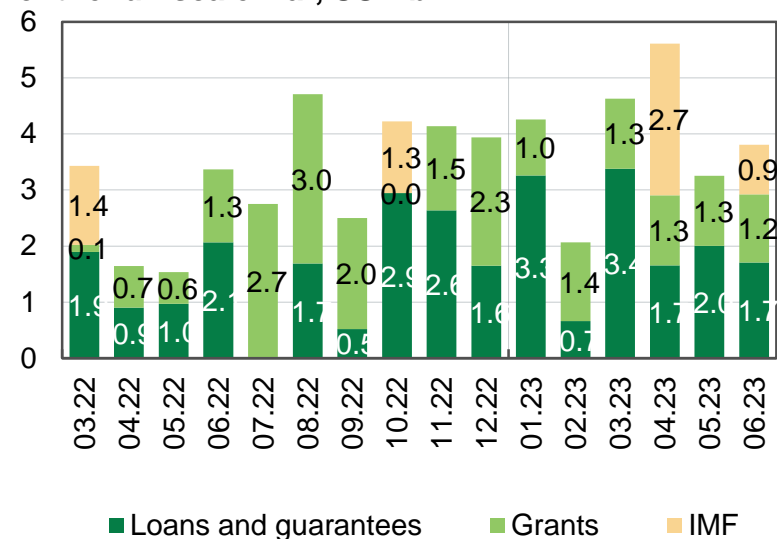
Financial account: net external liabilities, USD bn



* Including net errors and omissions.

Source: NBU.

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

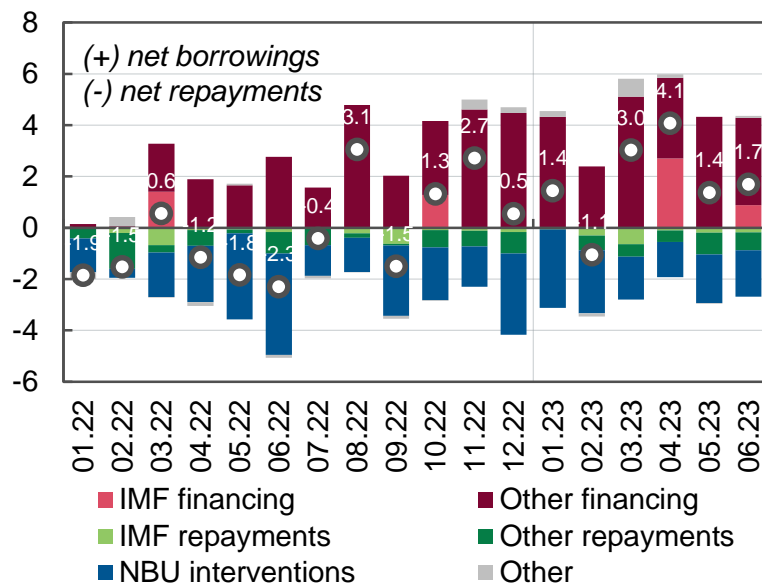


Source: open sources data, MoFU, NBU.

- Stable and regular disbursements from international partners ensured the preservation of net capital inflows to the public sector
- The capital outflows from the private sector remained limited and was driven by the increase in FX cash outside banks. As a result, capital inflows under the financial account were maintained in May and amounted to USD 1.5 bn

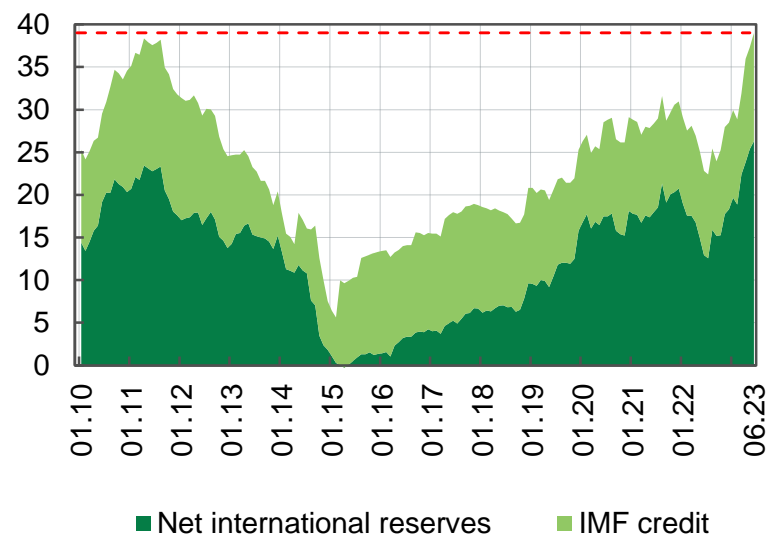
... and further increase in reserves

Change in reserves, USD bn



Source: NBU.

International reserves, USD bn



Source: NBU.

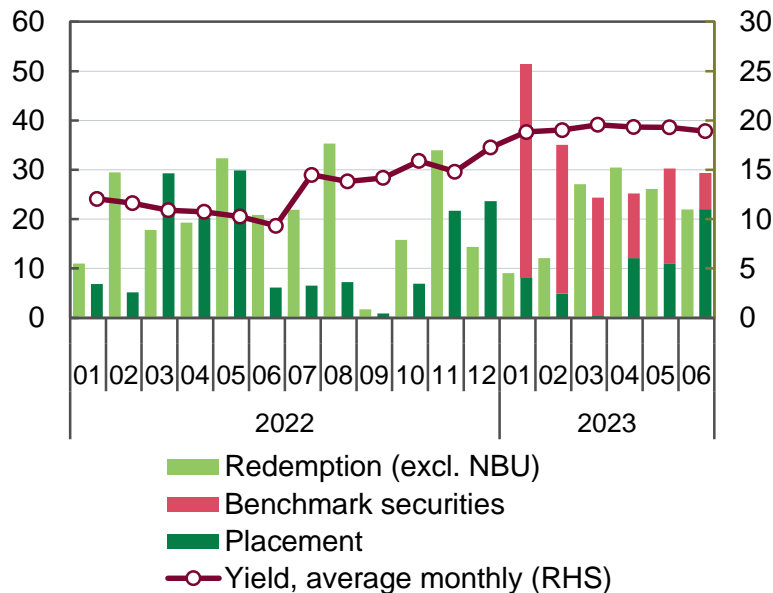
- The financial support from international partners continued to determine positive dynamics of reserves. Overall, as of the end of June, it exceeded USD 23 bn year-to-date
- Stable volumes of financial assistance in May allowed neutralizing larger interventions amid increased demand for foreign currency from the machinery and energy sector enterprises. As a result, gross reserves continued to grow and reached the highest level in the history of independent Ukraine, amounting to USD 39 bn as by the end of June



Ukraine: Monetary sector

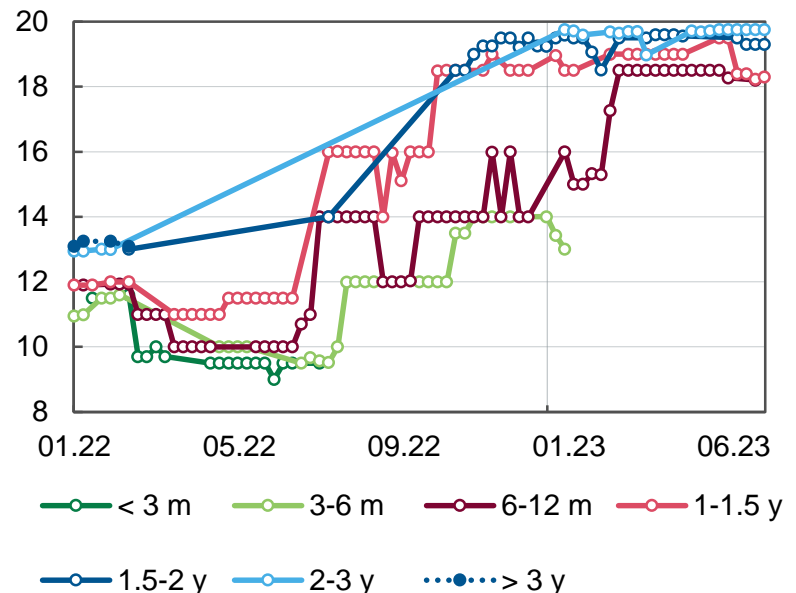
An increase in the real yields on domestic government debt securities supported market borrowings

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, %

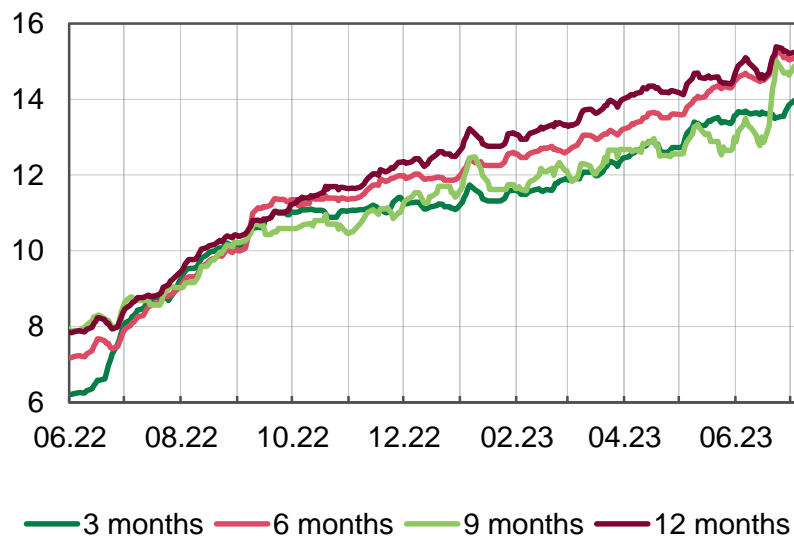


Source: NBU.

- The Ministry of Finance has slightly lowered the yields at some securities placement auctions. However, given a rapid decline in inflation, the yields on domestic government debt securities increased in real terms
- This, coupled with the expectations for a possible launch of a gradual easing cycle earlier than the NBU forecast in April, have increased market participants' interest in domestic government debt securities

NBU measures to enhance banks' competition for deposits are showing results, and their potential is not yet faded out

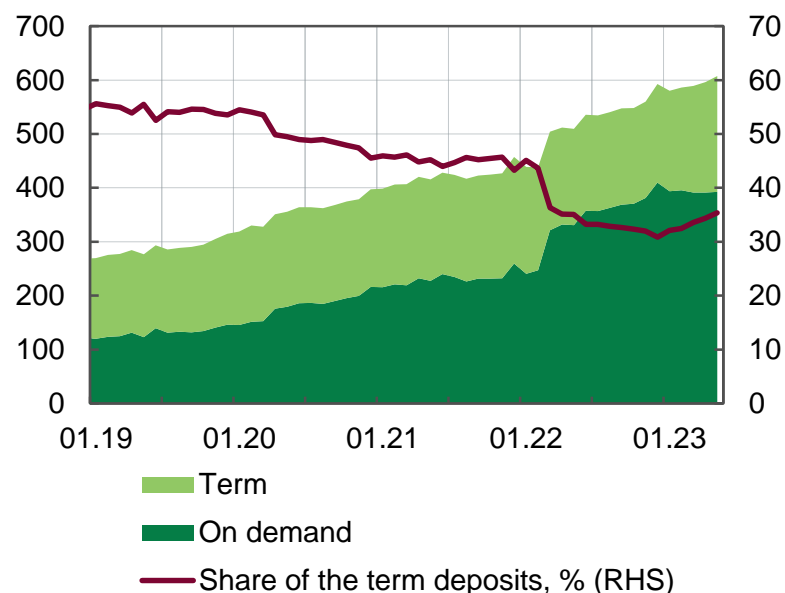
Ukrainian Index of Retail Deposit rates*, %



* 5-day moving average.

Source: Thomson Reuters.

Hryvnia retail deposits, UAH bn

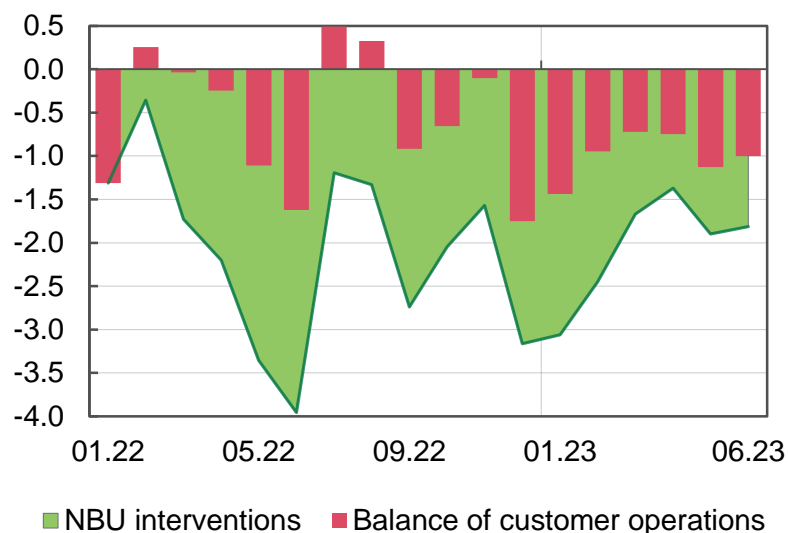


Source: NBU

- The interest rates on hryvnia term deposits continue to rise, and in most banks they are already at least as high as the expected inflation. As a result, the propensity to save in domestic currency has increased, and volumes and the share of term deposits of individuals have developed an upward trend
- An improvement in the term structure of deposits will further lower the risks to exchange rate stability and will support a consistent decline in inflation

FX market situation remains stable and under control

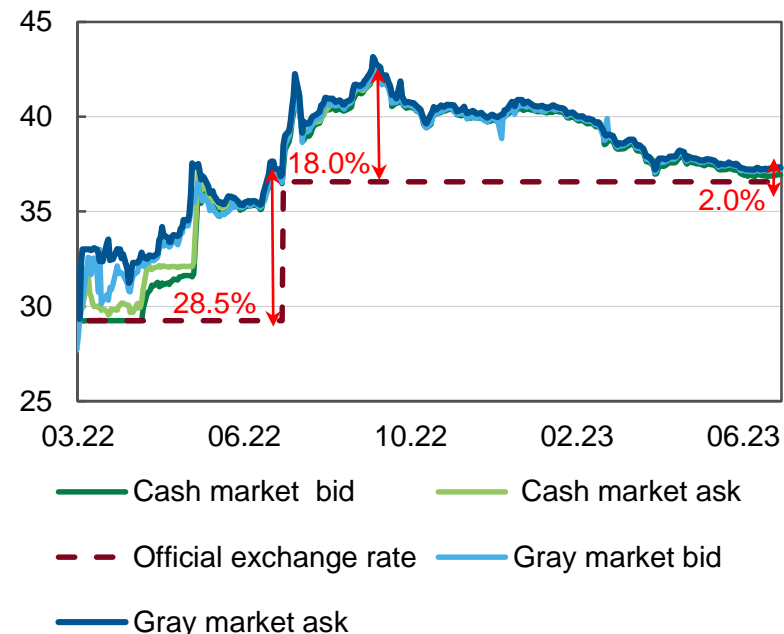
Bank clients' FX transactions and NBU interventions*, USD bn



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

Source: NBU.

Hryvnia exchange rates, UAH per USD



Source: NBU, open data sources.

- The balance of supply and demand in the FX market remained largely unchanged for both client operations and banks' own operations. In June, the NBU's interventions to sell foreign currency somewhat decreased compared to May
- The gray market exchange rate deviated from the official rate by a narrow margin