



National Bank
of Ukraine

Monthly Macroeconomic and Monetary Review

September 2023

Monetary Policy and Economic Analysis
Department



Summary

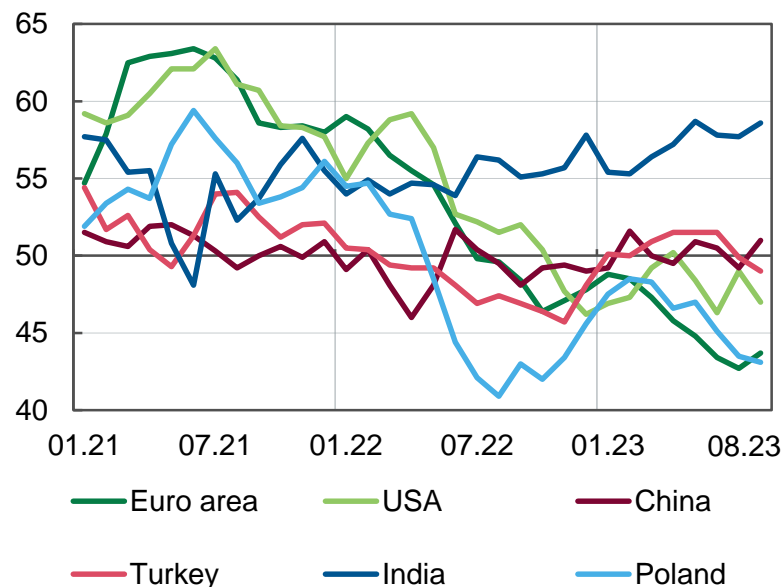
- **Economic growth in Ukraine's MTPs is slowing down, but inflation pressures remain persistent.** Significant supply constraints put upward pressures on global energy prices. Meanwhile, world prices for commodities prevailing in Ukrainian exports generally have been on a downward trend, despite their high volatility. **Major CBs' rates are very likely one step away from their peaks. By contrast, more and more EM central banks are moving to cut rates**
- **Consumer inflation in Ukraine continued to decelerate** (headline – to 11.3% yoy, core – to 12.3% yoy in July), driven by an expanded supply of food products and improved expectations on the back of exchange rate stability. According to the NBU's estimates, inflation slowed in August as well, primarily due to an increase in the supply of newly harvested fruits and vegetables
- In August, the **economy was supported by active fieldwork to harvest early grain and leguminous crops, which were larger than last year.** Budget funding for infrastructure restoration and defense orders stimulated **construction works and industrial production.** The contribution of trade and freight transportation was also significant
- The situation on the labor market is controversial. On the one hand, **the number of available job offers continued to grow**, which was only partially explained by seasonality. On the other hand, **the situation with wage income in the private sector remained difficult.** Wage increases are not systematic and often do not keep pace with inflation
- In July-August, the **state budget deficit slightly narrowed** due to a certain slowdown in expenditure growth. While **international aid continued to be the primary source of financing the deficit**, domestic borrowing maintained its contribution
- In July, the **current account returned to a deficit** as the exports of goods expectedly declined given the "grain corridor" suspension. Meanwhile, **substantially stronger inflows were recorded under the financial account**, mainly driven by a higher amount of loans received from international partners. Consequently, **international reserves reached a historic high USD 41.7 bn** as of 1 August. Despite their slight decrease in August, they remained at a high level – USD 40.4 bn as of 1 September
- **The yields on hryvnia assets remain attractive**, even in the face of the nominal rate cuts. The NBU saw an increase in FX sales driven by heightened net demand for foreign currency in August, primarily attributable to seasonal and situational factors. Meanwhile, exchange rate expectations have remained stable



External Environment

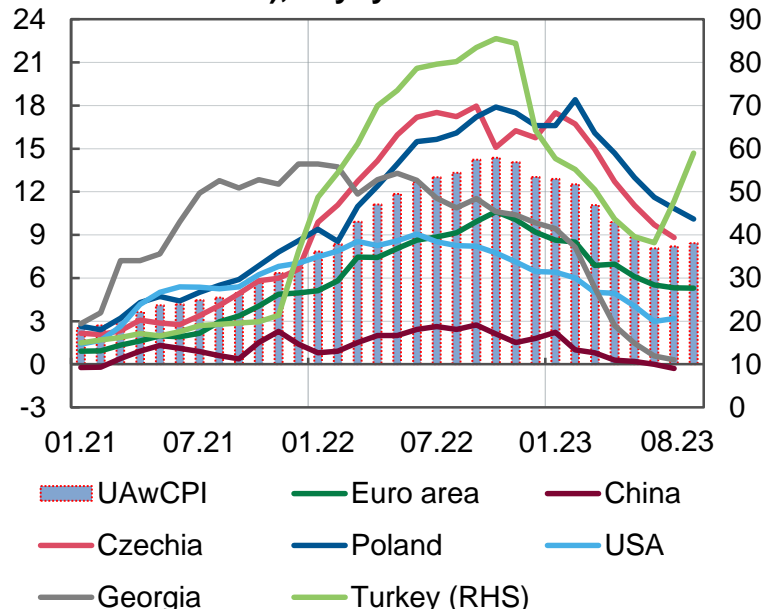
Economic growth in Ukraine's MTPs is slowing down, but inflation pressures remain persistent

Manufacturing PMI of selected countries



Source: S&P Global.

CPI in selected countries and UA wCPI (price index in MTPs of Ukraine), % yoy

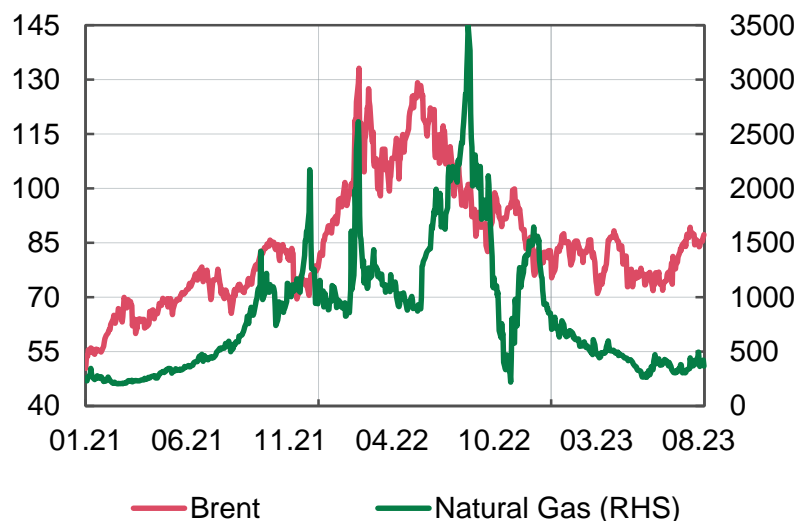


Source: National statistical offices, NBU staff estimates.

- Leading indicators pointed to a continued slowdown in the economies of Ukraine's MTPs, primarily due to weakening consumer demand. High interest rates and rising living costs slowed the expansion of the services sector, which had been the main driver of growth at the beginning of the year (primarily due to leisure and tourism, as China lifted quarantine restrictions)
- Manufacturing contracted for the fourth month in a row due to a drop in new orders and inventory utilization
- After a noticeable decline in the first half of the year, inflation pressures in Ukraine's MTPs showed signs of persistence. It was supported by high wage costs and a resumption of energy price growth

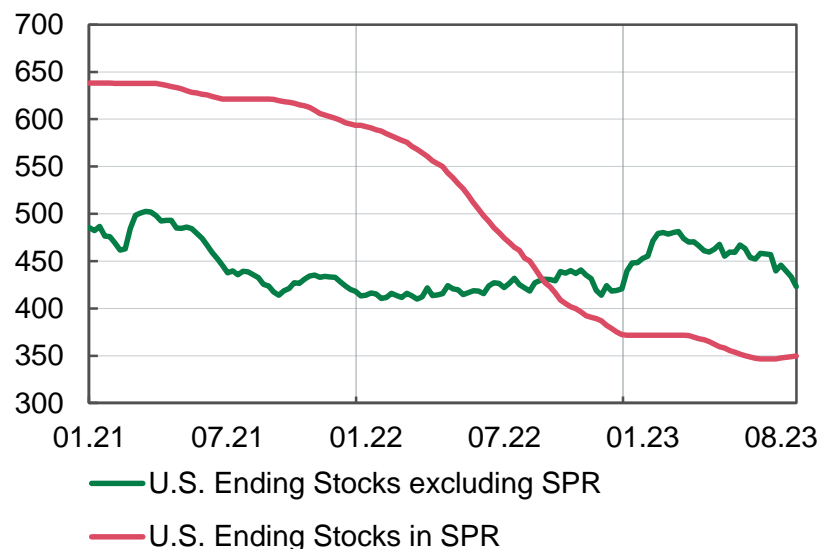
Significant supply constraints put upward pressures on global energy prices

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

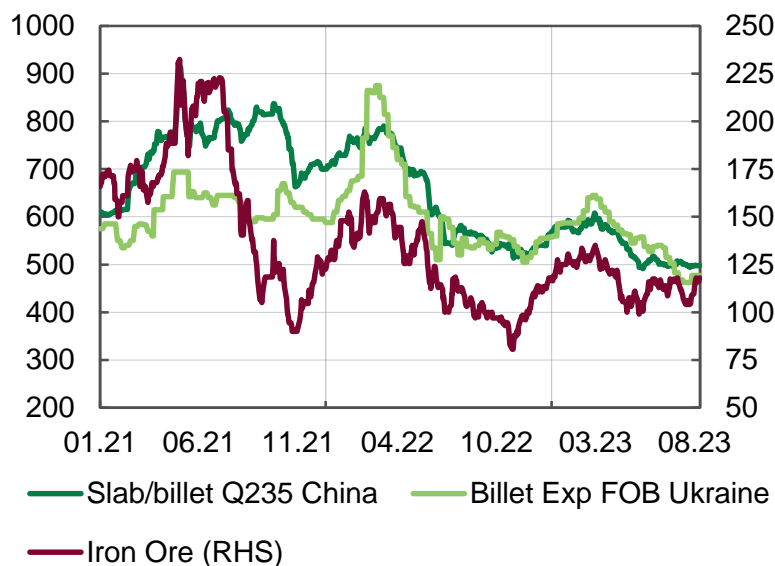


Source: U.S. Energy Information Administration, as of 25.08.2023.

- In August, oil prices were under pressure from a significant, higher-than-planned reduction in exports by Russia and Saudi Arabia (which will last until the end of September) amid increased air travel and use in electricity generation. On the other hand, weak demand from China, increased production by Iran, the US proposal to ease sanctions against Venezuela's oil sector, and significant US production restrained price growth
- Gas prices in Europe increased slightly due to higher demand from Asian countries amid the limited gas supply from Norway and LNG supply from Russia due to seasonal maintenance. The increase, however, was moderate given the accumulation of a fairly high level of gas stocks (over 90%) in EU storage facilities, well ahead of schedule (1 November)

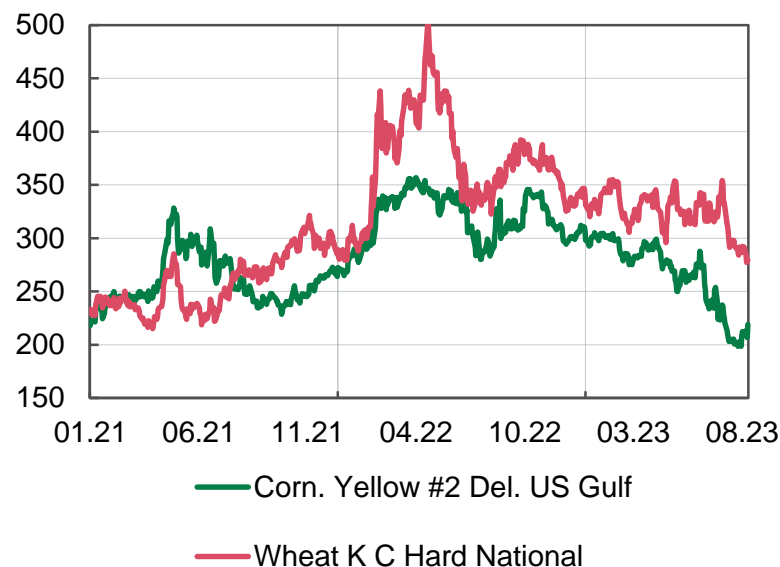
World prices for commodities prevailing in Ukrainian exports were highly volatile with the general downward trend

Global steel and iron ore prices, USD/MT



Source: Refinitiv, Delphica.

Global grain prices, USD/MT

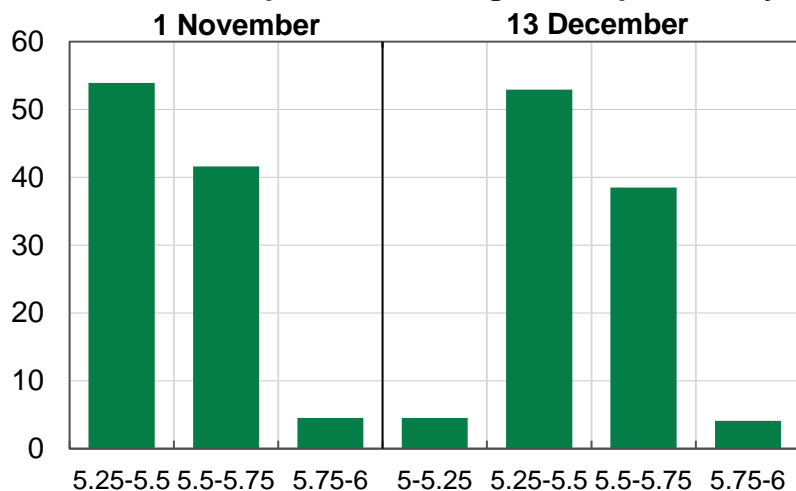


Source: Refinitiv.

- Global steel and iron ore prices fell in August due to the seasonal summer weakening of demand in most regions of the world amid increased production in Asia. However, the increase in pig iron production in China and expectations of new stimulus measures from the Chinese government supported the iron ore market at the end of the month and led to a slight increase in prices
- Global wheat and corn prices fell despite Russia's attacks on Ukraine's port and grain infrastructure, threats to shipping in the Black Sea, and demands from Bulgaria, Poland, Romania, Slovakia, and Hungary to extend the EU's ban on Ukrainian grain imports beyond 15 September. The reasons for cheaper prices were good grain harvests in Latin America and Europe, as well as in the United States (despite the drought)

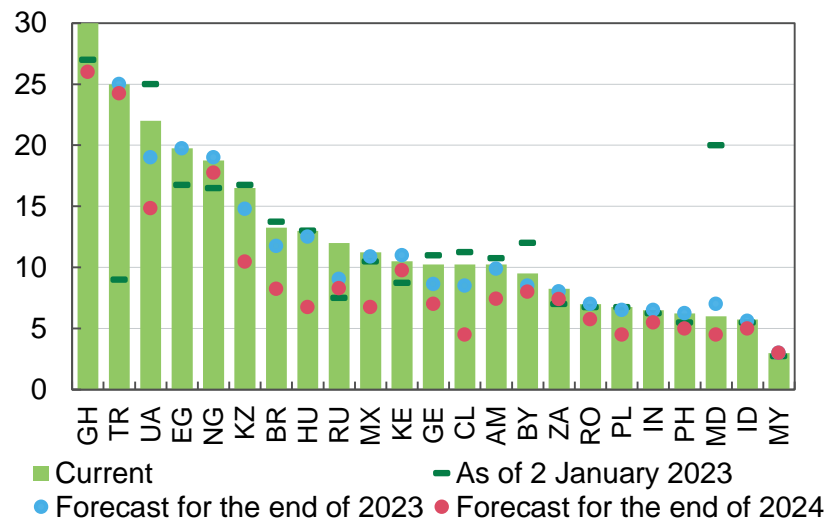
Major CBs' rates are one step away from their peaks. More and more EM CBs are moving towards rate cuts

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



Source: CME FedWatch Tool, as of 31.08.2023.

Key policy rates in selected EM countries, %



Source: official web pages of central banks, Focus Economics, Oxford Economics, as of 31.08.23.

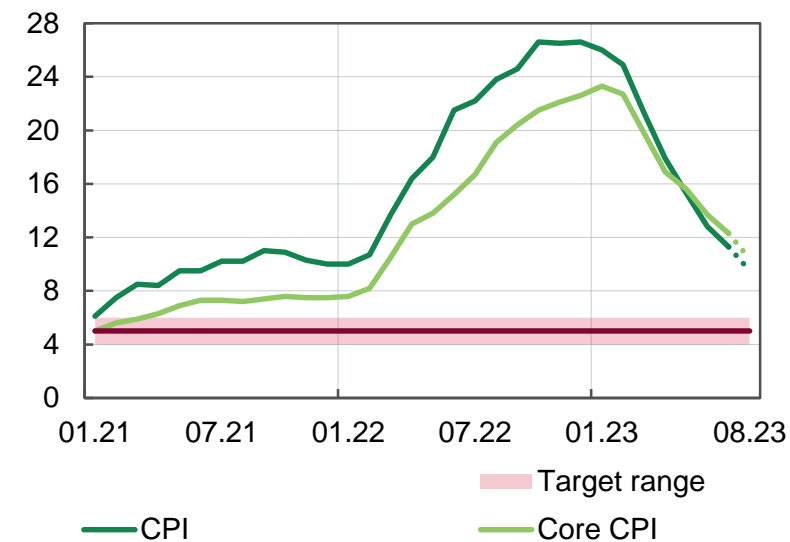
- The Fed and the ECB** raised their rates by 25 bps in July, nearing the end of the cycle. At the same time, CBs don't rule out the possibility of maintaining the restrictive policy for longer. Markets are expecting a pause in September and are betting on another ECB rate hike, the last in the cycle, later this year. Markets see a 50/50 chance of another Fed rate hike in November
- More and more **EM CBs** (Chile, Brazil, Uganda, Kazakhstan) are moving towards monetary policy easing. It is expected that CBs of Mexico (although the CB itself considers it unlikely) and Peru will start cutting rates by the end of 2023, South Africa – in early 2024. The CB of Czechia will begin debating lowering interest rates as soon as this autumn as it expects inflation to drop sharply in early 2024
- At the same time, in August the CB of **Turkey** raised the base rate by 750 bps, more than expected, to 25% "in order to establish the disinflation course as soon as possible, to anchor inflation expectations, and to control the deterioration in pricing behavior". The CB reiterated that it will continue the monetary tightening process. The CB's return to the orthodox policy is expected to be sustainable



Ukraine: Inflation

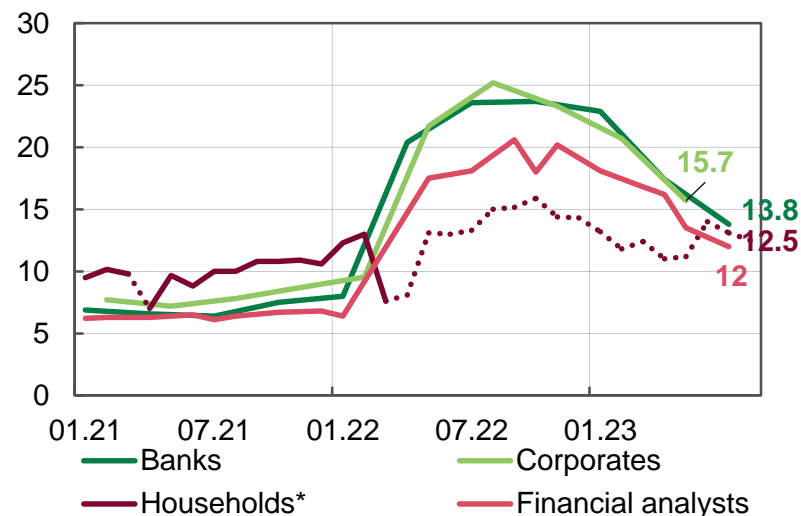
Consumer inflation continued to decelerate faster than expected

Inflation* and inflation target, % yoy



— CPI
— Core CPI
— Inflation targets
* Data for August reflects nowcast.
Source: SSSU, NBU staff estimates.

Inflation expectations for the next 12 months, %

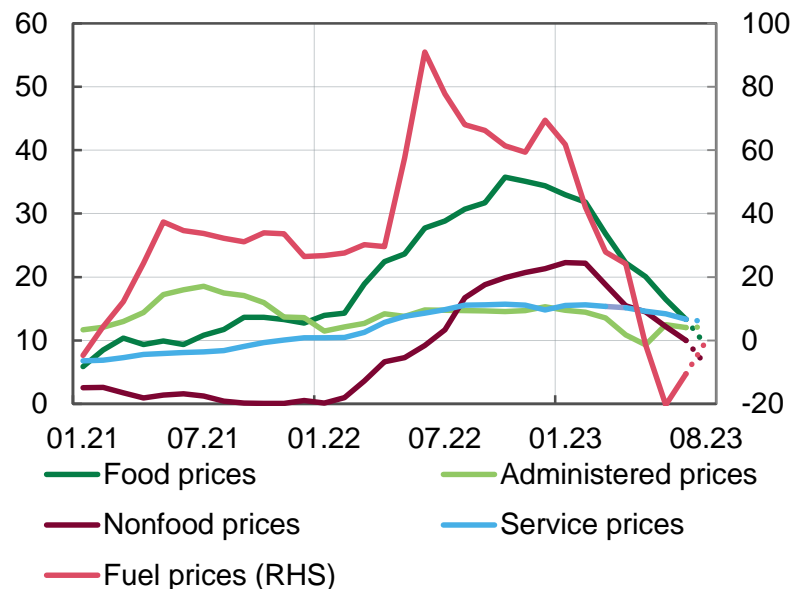


— Banks
— Corporates
— Households*
— Financial analysts
* The dotted line indicates a change in the method of survey for a telephone interview.
Source: NBU, GfK Ukraine, Info Sapiens.

- The faster deceleration in inflation was driven by a larger supply of food, as well as a further improvement in inflation expectations, including due to the favorable situation on the cash FX market
- According to the NBU, these factors also helped slowing inflation in August
- Underlying inflation pressures weakened in line with the NBU's forecast. This was driven by improved expectations in the context of continued exchange rate stability and reduced pressure from business costs

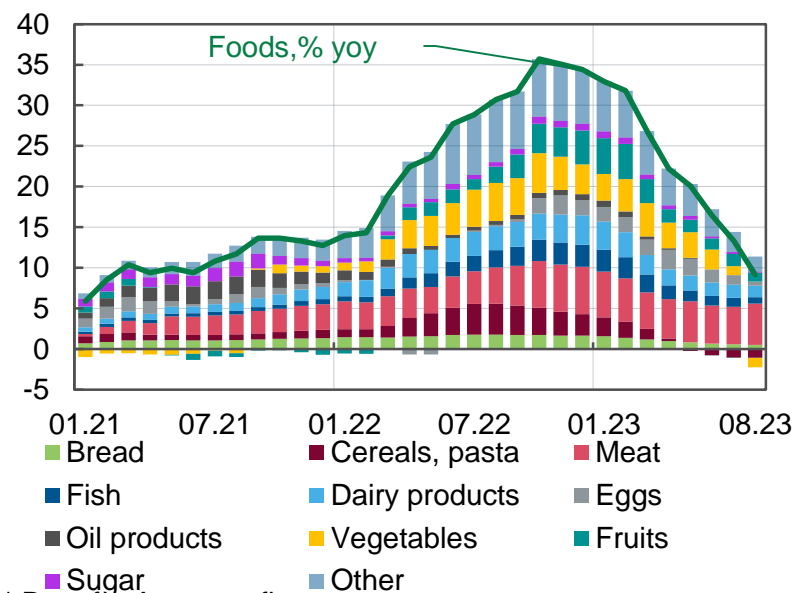
Expanding food supply helped slowing inflation

Selected CPI components*, % yoy



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

Contributions to the annual change in food prices*, pp

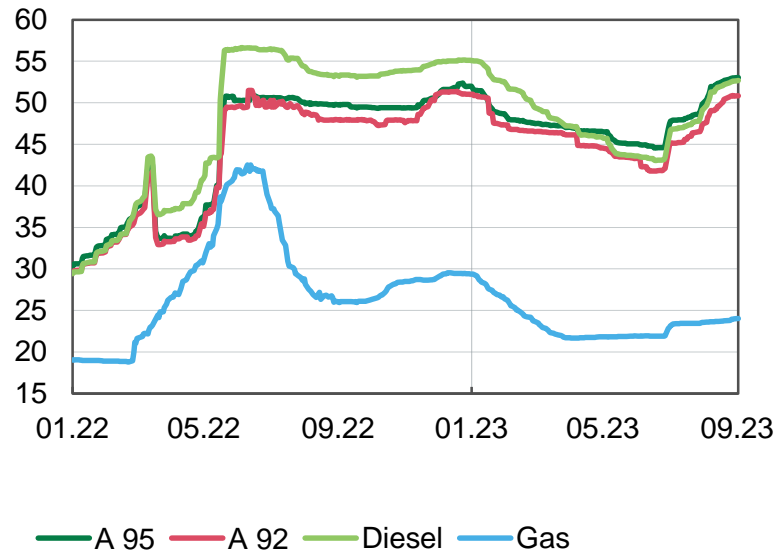


* Data for August reflects nowcast.
Source: SSSU, NBU staff estimates.

- Food price growth continued to decelerate due to increased supply, easing cost pressures, and optimization of production and supply chains
- Improved expectations for the new grain harvest, coupled with increased production, pushed down prices for cereals and flour
- Despite the increase in external prices, the rise in the price of sunflower oil on the domestic market continued to slow. This was due, in part, to difficulties in exporting it
- Vegetable price growth also slowed due to an increase in supply. Egg prices growth also moderated due to higher production, but the prices remained above the previous year's level due to higher exports

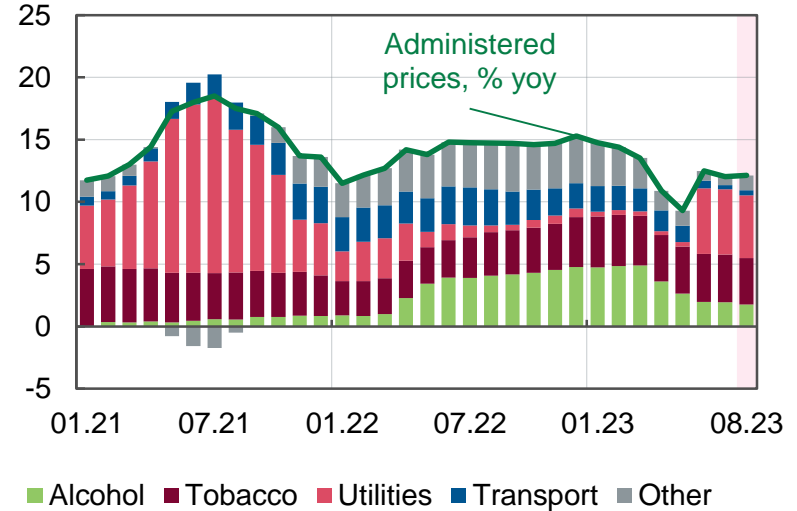
Fuel prices rose as expected due to the return of full taxation levels

Fuel prices, UAH / L



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

Contributions to the annual change in administered prices, pp



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

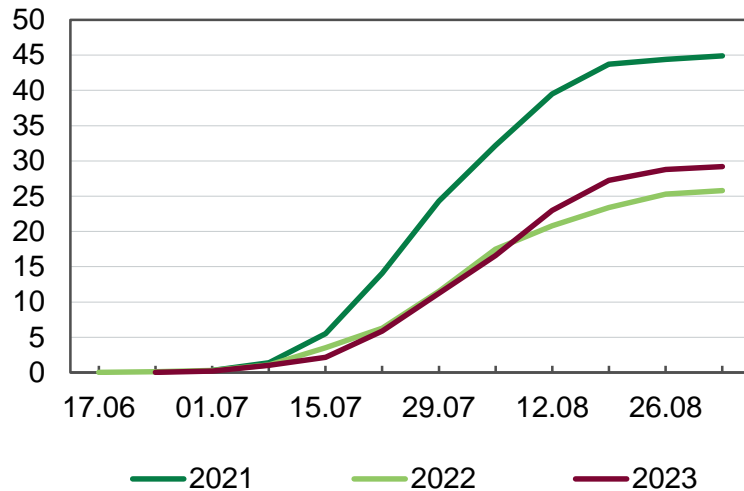
- Fuel prices rose gradually in July due to large fuel stocks accumulated before the excise tax increase. The growth in fuel prices was restrained by the decline in global oil prices in the previous months, as well as increased competition in the retail market. In August, fuel prices continued to rise as previous stocks were depleted.
- The rise in prices for alcoholic beverages and tobacco products slowed amid favorable FX market conditions and pressures from shadow supply
- The moratorium on raising tariffs for a number of utility services for households continued to restrain administered inflation



Ukraine: Economic activity

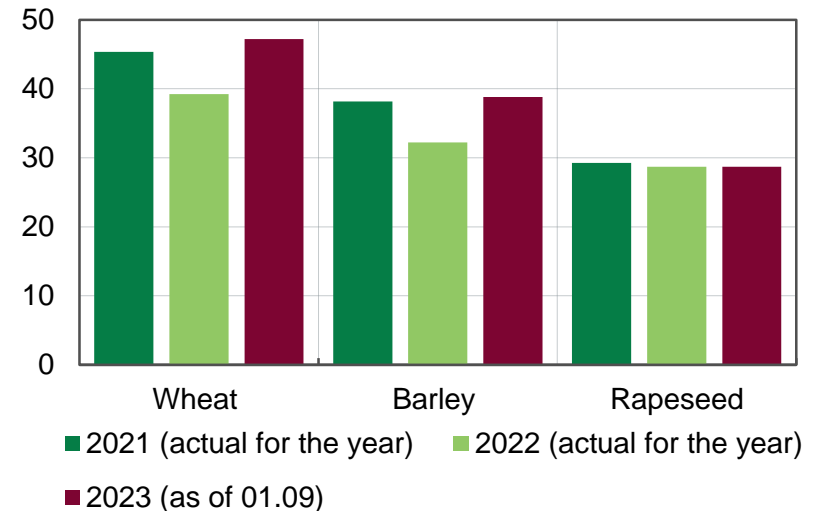
Thanks to favorable weather, the harvest of early grains and oilseeds exceeded expectations and last year's figures

Volumes of harvested grains and leguminoses, million tons, cumulative



Source: MinAgro.

Productivity of the main agricultural crops, centner/ha

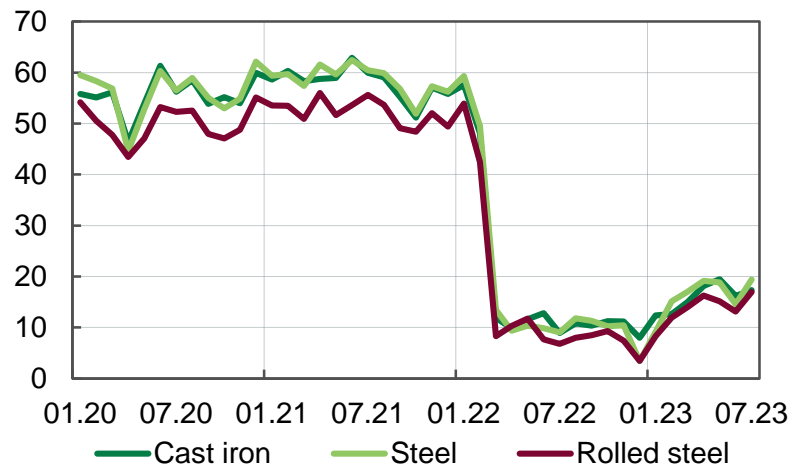


Source: MinAgro.

- As of the end of August, the harvesting of early crops was practically completed: 29 million tons of grains and 4 million tons of oilseeds were threshed. Thanks to the favorable weather, the productivity of early grains not only exceeded the previous year's figures, but also those of the record year 2021. However, the [wet summer affected the quality of grains](#)
- The situation in vegetable production was also better than last season: the production of "[borshch vegetables](#)" increased; watermelon cultivation [resumed](#) in particular due to the increase of areas in the controlled south, as well as in western and central regions
- On the other hand, production volumes of [pork](#) and [raw milk](#) weakened seasonally. A reduction in the supply of raw materials restrained milk and [meat processing](#)
- [Flour production grew seasonally](#), but its further growth was held back by the [lack of quality raw materials](#)

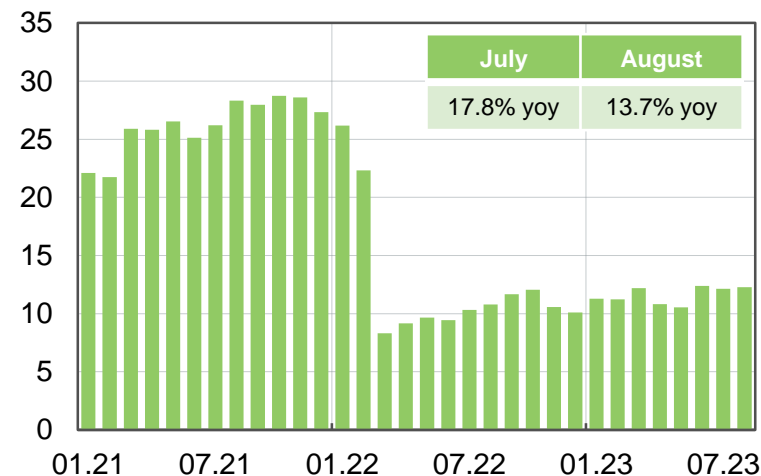
Budget funding and defense orders supported construction and industry, and logistics needs supported transportation

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



Source: Ukrmetallurgprom.

Rail freight transportation, million tons

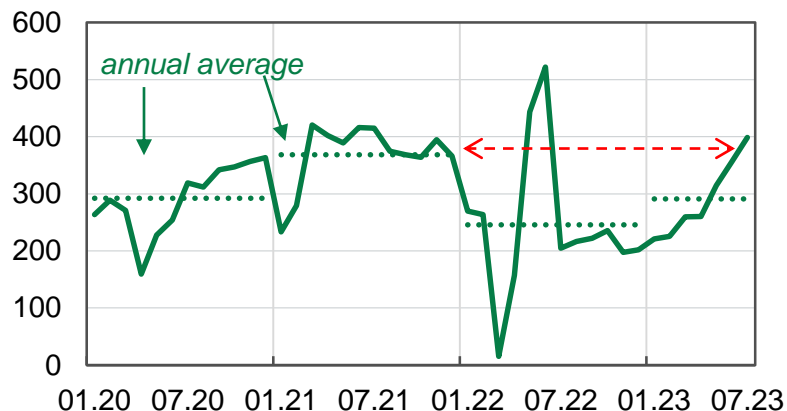


Source: SSSU, Rail.insider, UZ

- Metallurgy was supported by orders from the [armed forces](#) and [railway operators](#) in August. Individual companies [create a stock](#) of products in case of power outages in winter. In preparation for winter, coal and gas mining companies are investing in [upgrading and expanding facilities](#) to [increase production](#); individual ore mining enterprises [introduced new facilities](#)
 - The construction of wagons and grain trucks, ships and equipment for ports and [granaries](#), as well as the production build-up of [armored vehicles](#), [ammunition](#) and [UAVs](#) contributed to the loading of engineering enterprises
 - The work of transport revived, despite the suspension of the "grain corridor" and the shelling of the ports. Thus, in August, [rail freight transportation increased](#) (+1% mom and +13.7% yoy) and the [volumes of grain truck transfers](#) through western borders rose. Compared to July, exports by [motor vehicles](#), the [number of vessels](#) and the volume of [transportation through the Danube ports](#) increased
- Investments by farmers and [food industry enterprises](#) in [infrastructure](#) and the [expansion of production facilities](#) supported construction and the growth of trade in [metals](#) and [building materials](#)

The revival of consumer demand also continued

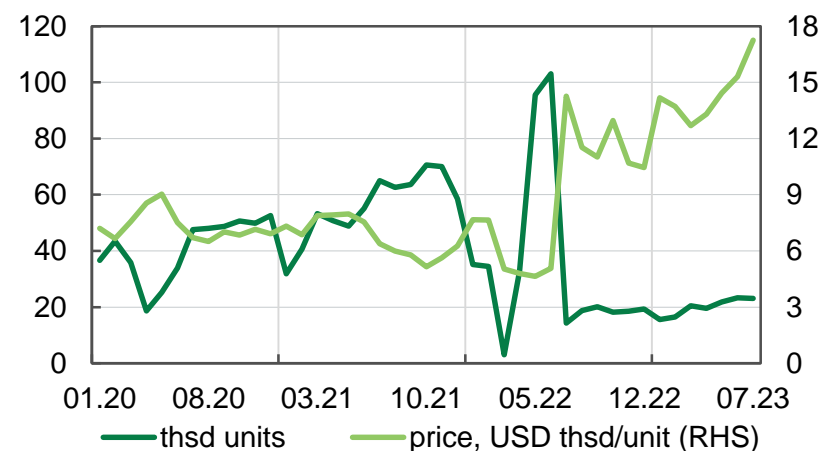
Motorcars imports, USD m



Source: NBU.

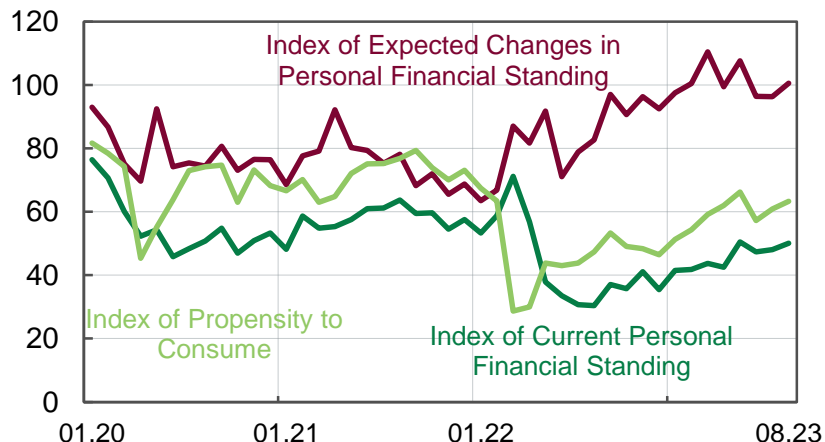
- [Sales of new passenger cars](#) in August rose by 9.4% mom and reached a 20-month high. Above all, the value of imports of passenger cars increased
- Sales of [uninterruptible power supplies](#) and [school supplies](#) also supported retail sales in August
- The [occupancy of shopping malls](#) and the number of visitors steadily increased (currently, more than 75% of tenants have conditions close to the level of 2021)
- [Domestic tourism](#) supported rail passenger transportation in July and August

Motorcars imports



Source: SCSU.

Components of the consumer sentiment index, p.

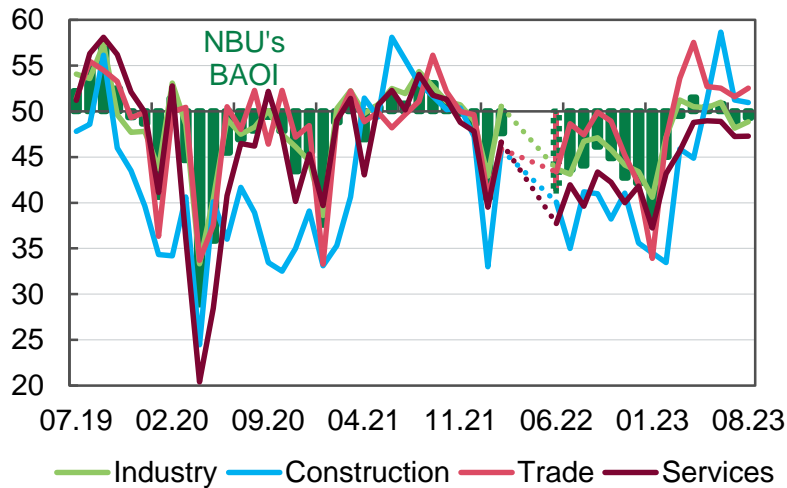


From March 2023, the survey method was changed from face-to-face to telephone interviews.

Source: Infosapiens.

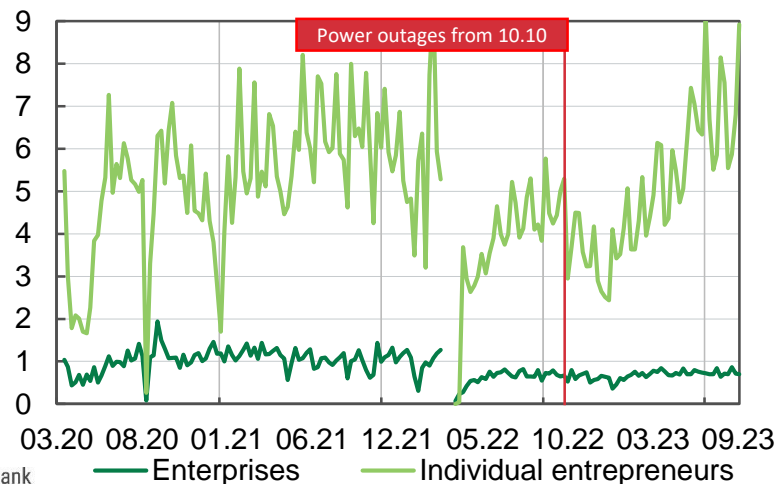
However, the services sector is showing signs of weakening business activity

NBU's business activity outlook index, p



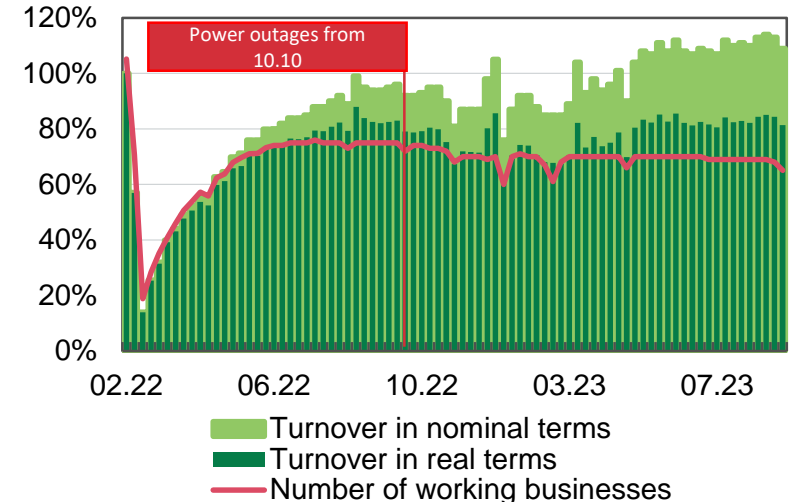
Survey was not conducted from March to May 2022.
Source: NBU.

New business registrations, thousands



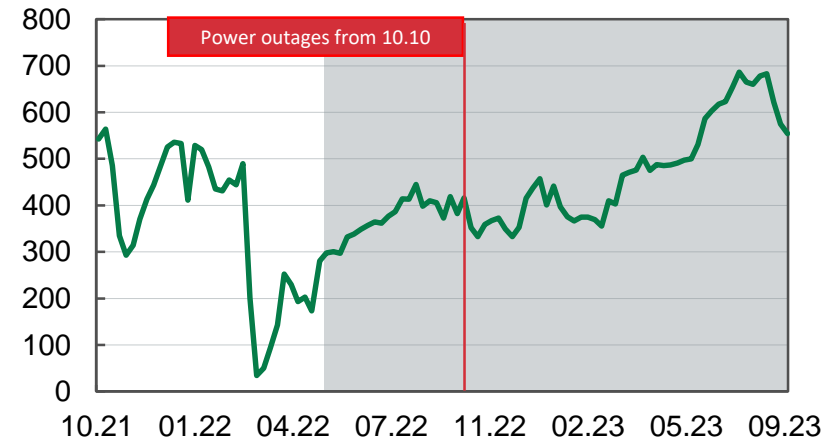
Source: opendatobot.ua.

Performance indicators of the restaurant industry, %



Source: SSSU, Poster, NBU staff estimates.

Number of UZ tickets sold per week, thousands



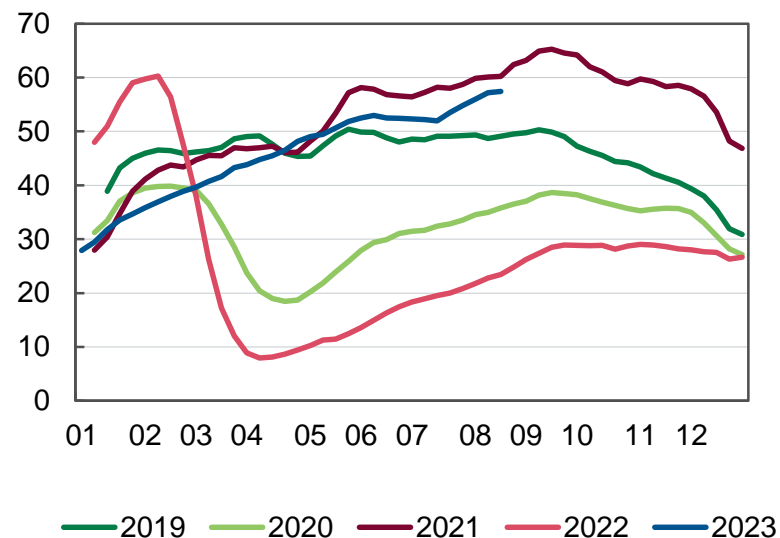
Source: UZ.



Ukraine: Labor market

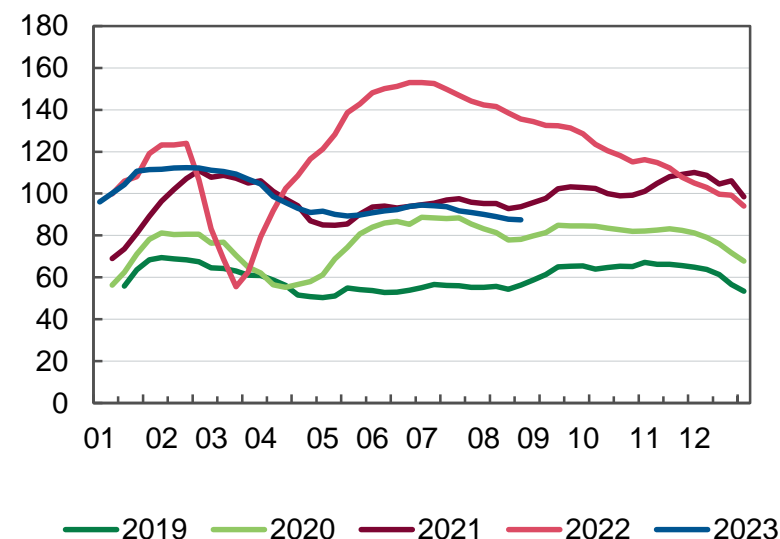
The number of job offers was growing, but qualification mismatches were also increasing...

Labor demand, new job offers, thousands (4-week moving average)



Source: work.ua, NBU staff estimates.

Labor supply, new resumes, thousands (4-week moving average)

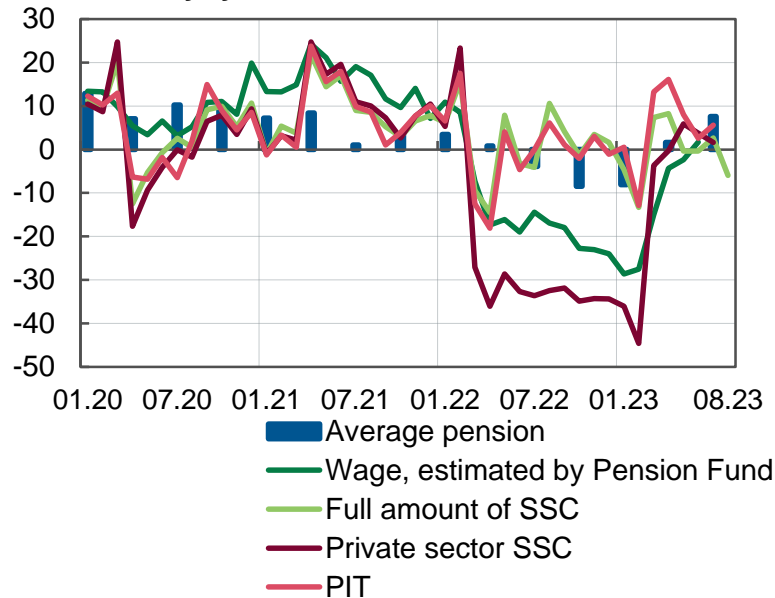


Source: work.ua, NBU staff estimates.

- The number of available job offers continued to grow, which is only partly due to seasonality
- At the same time, the number of resumes decreased slightly, which could reflect both the resumption of employment of Ukrainians and the tightening of labor supply, in particular due to migration and mobilization
- However, the surveys showed a further increase in imbalances in the labor market - 38% of respondents to the [IER survey](#) in July reported a shortage of skilled workers (31% in April)

...the situation with wage income in the private sector remained difficult

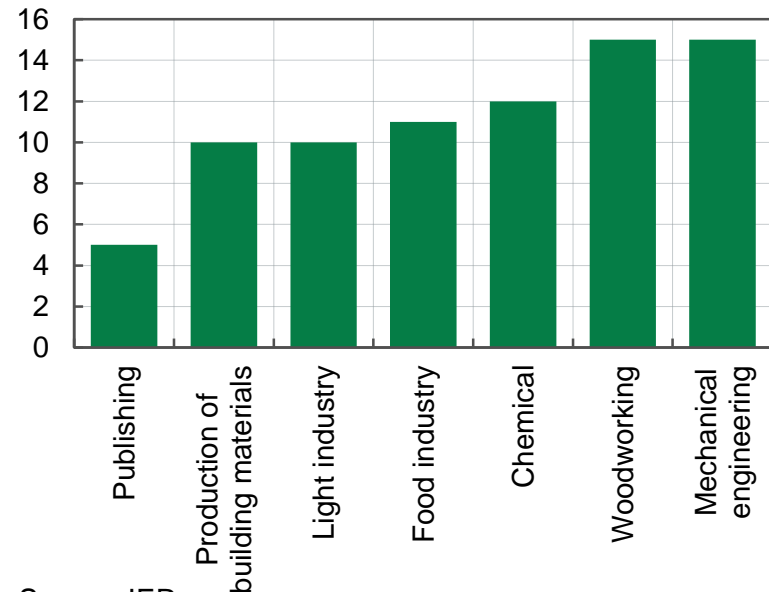
Indirect indicators for estimating real household income*, % yoy



* Deflated by CPI.

Source: PFU, SSSU, STSU, NBU staff calculations.

Average wage growth rate in nominal terms by industry sector since the beginning of 2023 among enterprises that have increased their wages, %

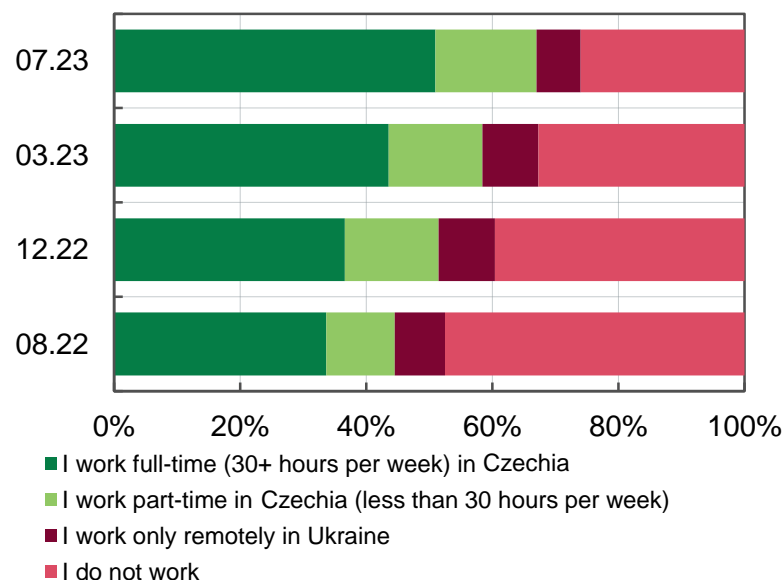


Source: IER.

- The revival in labor demand amid difficulties in finding skilled workers and a limited supply of labor generally put upward pressure on nominal wages. Budget payments also support households' income
- However, the situation with wage income remains challenging due to significant uncertainty. According to the [IER survey](#), in the first half of 2023, the majority of enterprises (59%) did not change wages. Those who increased wages (34% of respondents) increased them by 12% on average since the beginning of the year in nominal terms. Only 14% of the surveyed enterprises plan to increase wages by the end of 2023, 40% do not plan to increase wages, and 46% have not decided

In summer, some migrants returned to Ukraine. Adaptation of those who stay abroad is increasing

Employment of economically active refugees, % of responses



Source: PAQ Research (Czechia).

Field of activity in Ukraine (up to 2022) and in Czechia among employed refugees, % of responses



Source: PAQ Research (Czechia).

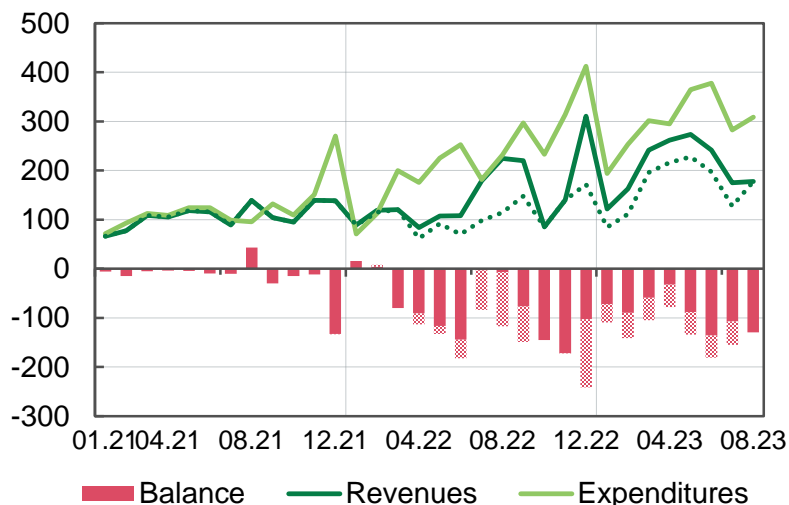
- The number of migrants outside Ukraine decreased slightly: according to UNHCR estimates, as of August 29, 2023, there were 6.2 million people outside Ukraine (compared to 6.3 million in June). Similar results were reported by the State Border Guard Service: in August, 100 thousand more people returned to Ukraine than left. The largest recipient countries are Poland and Germany
- According to a study by PAQ Research (Czechia), in June 2023, 67% of economically active migrants in Czechia were employed. The share of those renting housing has also increased (almost half of refugees). However, most migrants work in jobs well below their qualifications. Two-thirds of migrants live below the poverty line. At the same time, state support for refugees has been reduced in Czechia since July



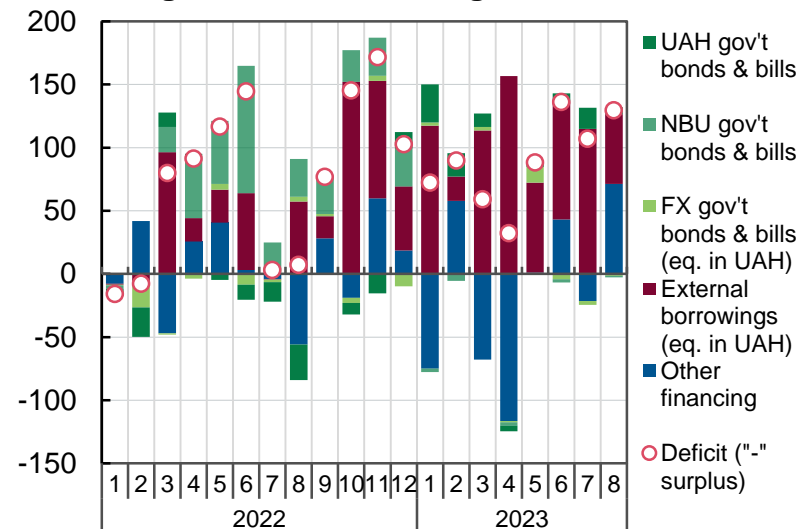
Ukraine: Fiscal sector

The budget deficit narrowed somewhat ...

Main state budget indicators* (monthly), UAH bn



State budget balance financing**, UAH bn



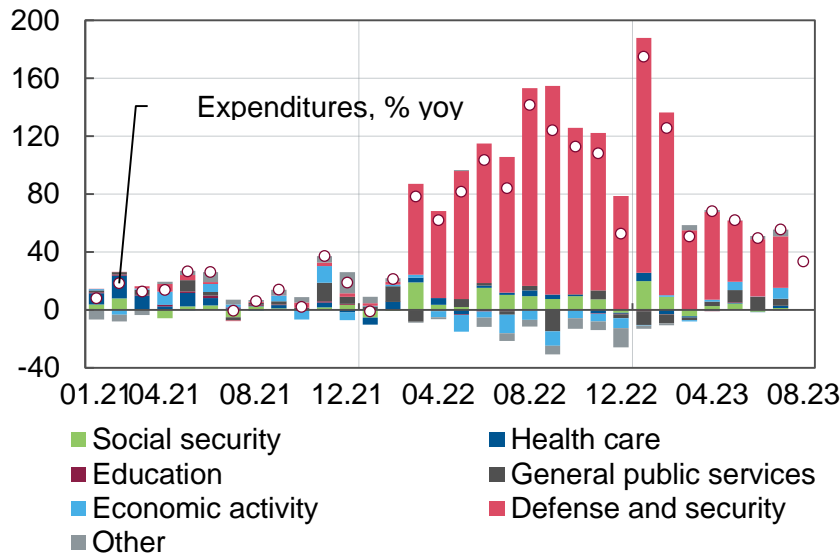
* Dotted and patterned fillings show relevant indicators excluding grants. Balance includes net lending. ** Debt transactions are net borrowings. Other financing represents active operations (in particular, includes the change in volumes of gov't funds) and privatization proceeds.

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

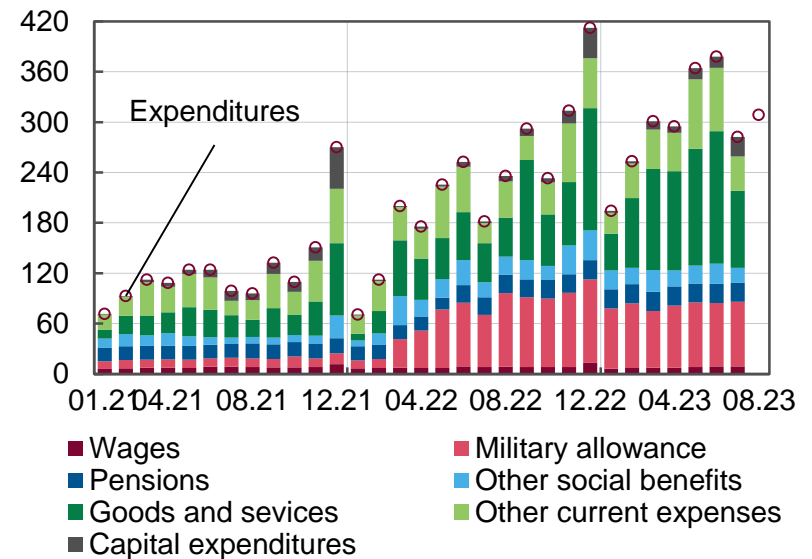
- In July-August, the state budget deficit declined compared to June. However, it remained substantial and significantly exceeded last year's figure. In January-August 2023, the deficit reached over UAH 1,031 bn excluding grants from revenues (UAH 714.6 bn with grant financing)
- The deficit and debt redemptions were mainly covered by international aid (USD 6.1 bn in July-Aug and USD 29.7 bn since the beginning of the year, with loans accounting for more than USD 21 bn)
- The role of domestic borrowings has notably expanded this year due to the attractive yields in real terms and the banks being able to use benchmark domestic debt securities to meet the reserve requirements

... due to a certain slowdown in expenditure growth. However, the spending remained substantial

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



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



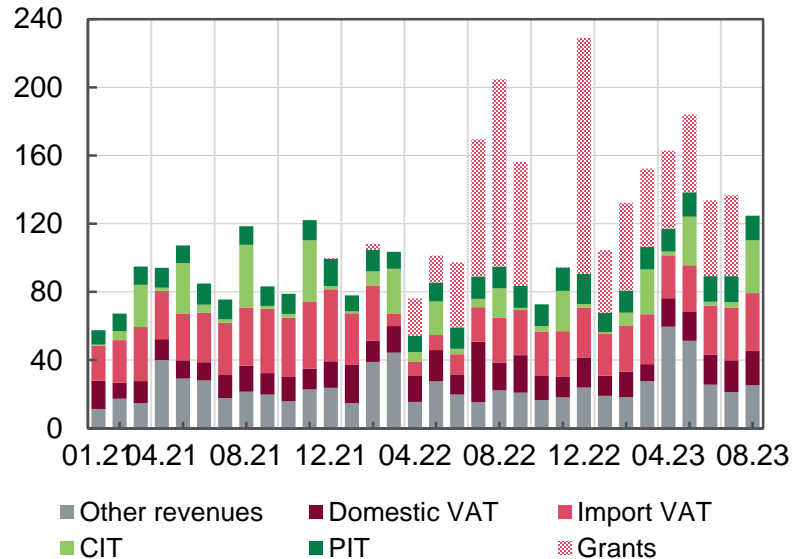
* August – preliminary data from the MFU website. NBU calculations based on the MoF's data.

Source: Treasury, MoF, NBU staff calculations.

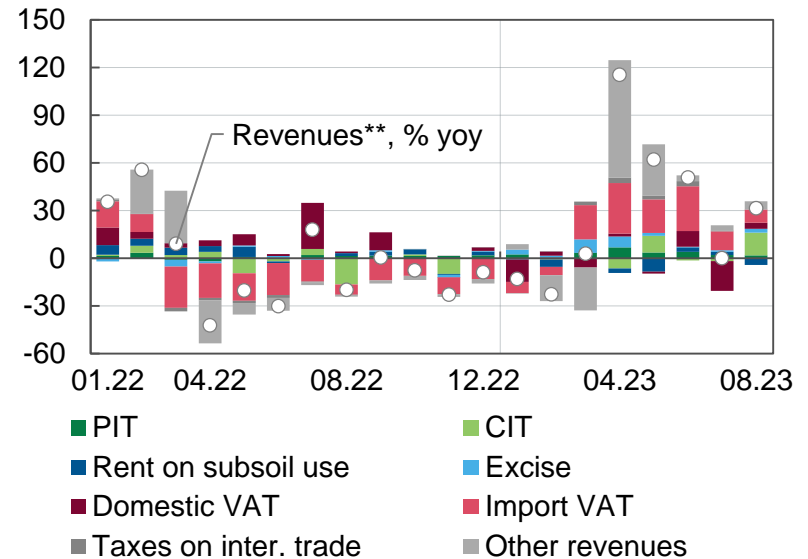
- Defense and security remained the top priority expenditure directions (more than 64% of all spending). Specifically, funds were allocated for military allowances and logistical support for the Armed Forces of Ukraine. Social expenditures, particularly in the areas of social care and state guarantees of medical services to the population, remained significant focal points
- Furthermore, the upward trend in capital expenditures persisted, primarily associated with infrastructure reconstruction and repair. In fact, since the beginning of the full-scale war, their monthly volume in July marked the second-highest since December 2022

Budget revenue performance improved further. However, own revenues still fall short of covering even half of expenditures

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



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



* August – preliminary and high-frequency data from the MFU website. NBU calculations based on the MoF data.

** Excluding grants.

Source: Treasury, MFU, NBU staff calculations.

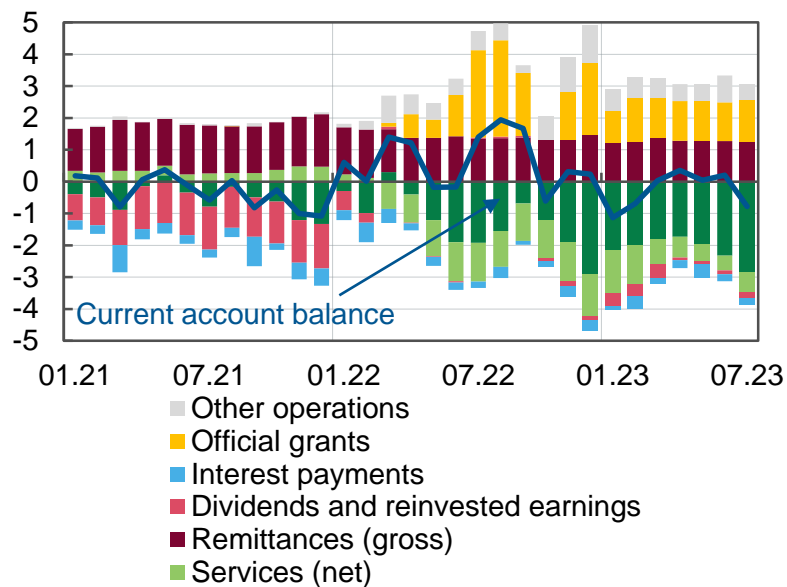
- The improvement in tax revenue performance reflects both the overall revival of economic activity (corporate income tax collections in August were the highest since the beginning of the full-scale war), as well as better tax administration, and the restoration of fuel taxation in full starting July 1
- However, own revenues (excluding grants) in January-August 2023 managed to cover only 43% of expenditures within the state budget's general fund



Ukraine: Balance of Payments

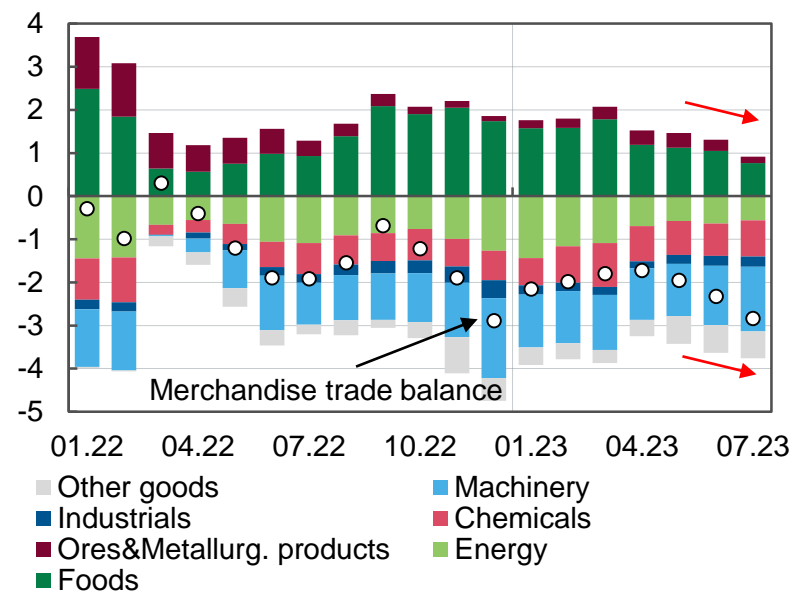
In July, the current account returned to a deficit as the exports of goods expectedly declined

Current account balance, USD bn



Source: NBU staff calculations.

Trade in goods balance, USD bn

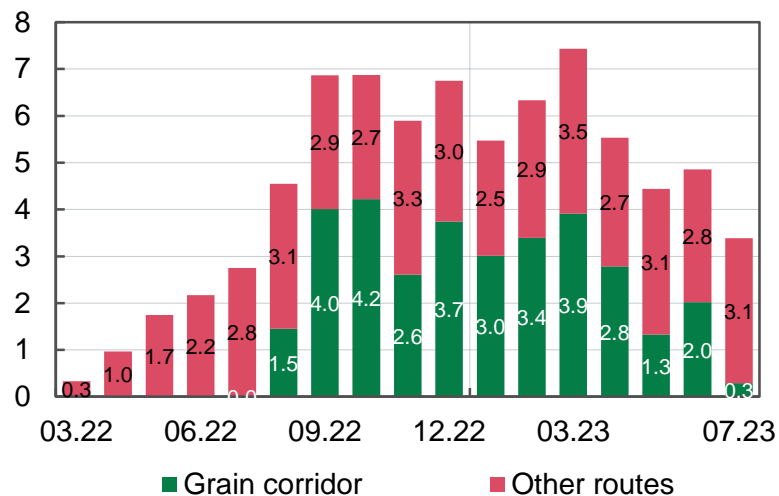


Source: NBU staff calculations.

- In July, the trade deficit in goods continued to expand as exports declined while imports remained substantial
- Additionally, the deficit of trade in services also widened, primarily driven by the imports of travel services
- Remittances and grant financing from the United States remained the main sources of FX inflows under the current account

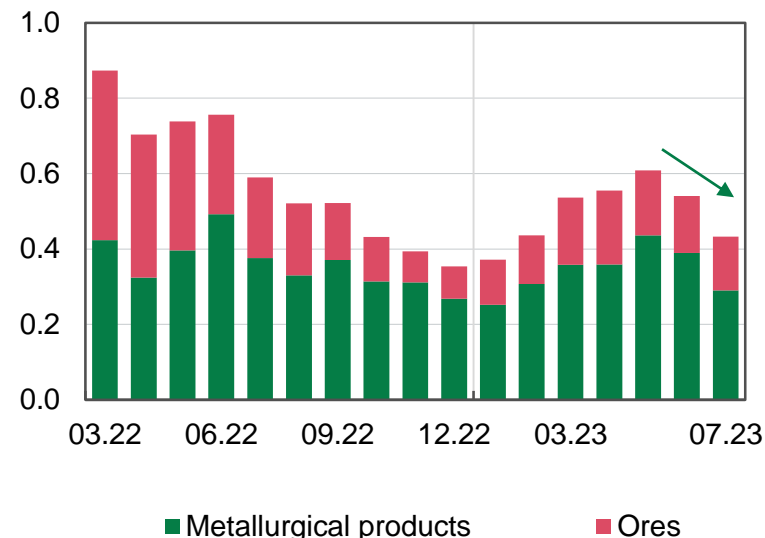
Suspension of the "grain corridor" and weaker demand from the EU for MMC products pushed Ukraine's exports of goods down

Exports of selected food products*, t m



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

Exports of MMC products, USD bn

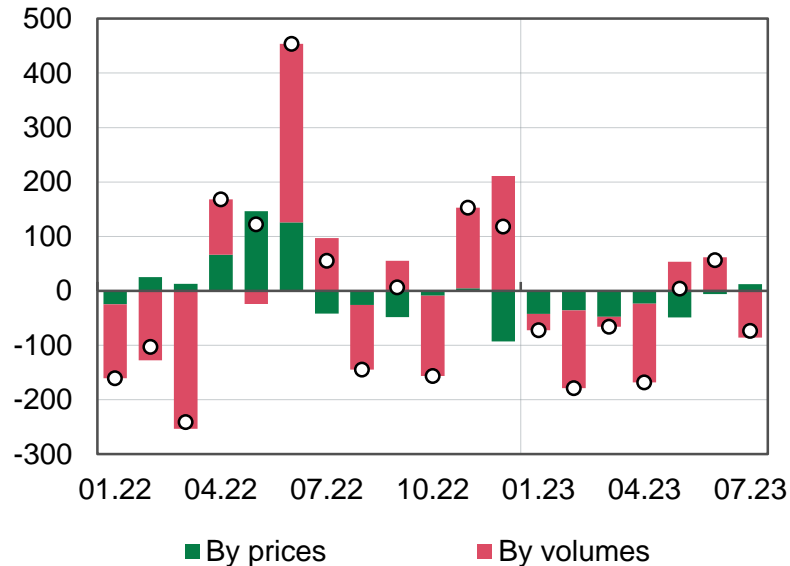


Source: NBU.

- russia's withdrawal from the grain agreement made grain exports to decline significantly compared to previous months. Simultaneously, other routes saw an increase in shipments, particularly through the Danube ports, where the volumes of transshipment reached one of the historic highs
- Lower export prices became another contributing factor to the decline in grain exports. This was attributed to the lower quality of newly harvested wheat, and an increase in freight costs at the Danube ports due to targeted terrorist attacks on the port infrastructure by the country-aggressor
- For the second consecutive month, exports of the mining-and-metallurgical complex (MMC) products have been declining. July's volumes were impacted by hampered production following the destruction up of the Kakhovka HPP by invaders. Additionally, demand from the European metallurgical sector remained sluggish

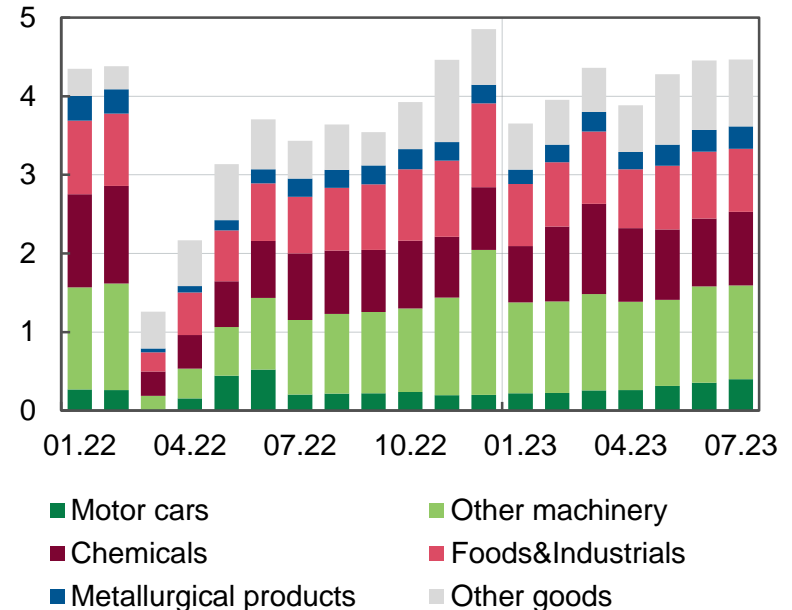
Purchases of oil products decreased given their substantial stocks available. However, imports of goods remained high

Imports of oil products, monthly absolute change, USD m



Source: NBU staff calculations.

Non-energy imports, USD bn

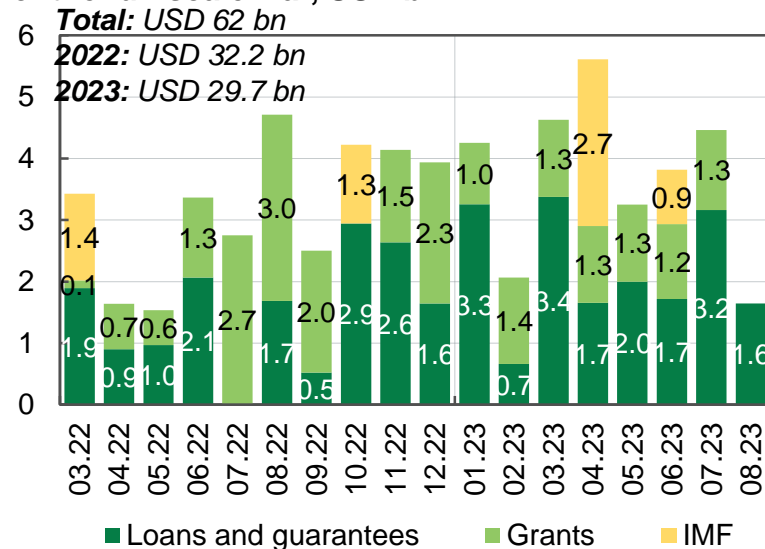


Source: NBU staff calculations.

- Against the backdrop of substantial accumulated stocks in previous periods and a temporary uptick in oil prices, the volume of oil product imports in July decreased by 15% compared to June
- Furthermore, there was a decrease in the imports of food products, primarily attributed to tobacco products, due to the enforcement of a ban on the sale of flavored cigarettes and their associated liquids
- Meanwhile, purchases of fertilizers increased thanks to adjustments in supplies from distant suppliers. Additionally, for the second consecutive month, the imports of motor cars exceeded the annual average for 2021

Reserves reached another historic high primarily due to sizable international financial assistance

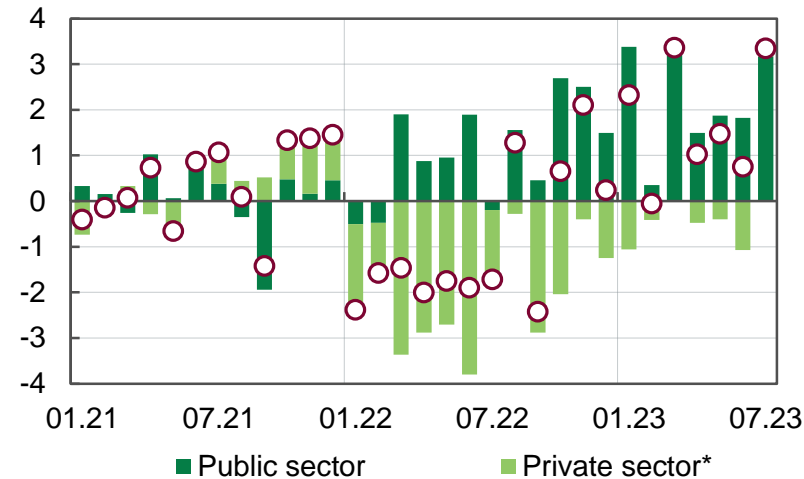
International financial assistance since the beginning of the full-scale war, USD bn



Source: open sources data, MoFU, NBU.

- In July, the public sector received another tranche of USD 1.7 bn from the EU and a USD 1.5 bn loan from Japan
- Notably, for the first time since the end of 2021, the private sector also generated a capital inflow. Non-residents' liabilities under trade credits decreased, while those of the residents' grew larger
- As of the end of July, the reserves once again reached a historic high – USD 41.7 bn. Despite their slight decrease in August, they remained at a high level – USD 40.4 bn

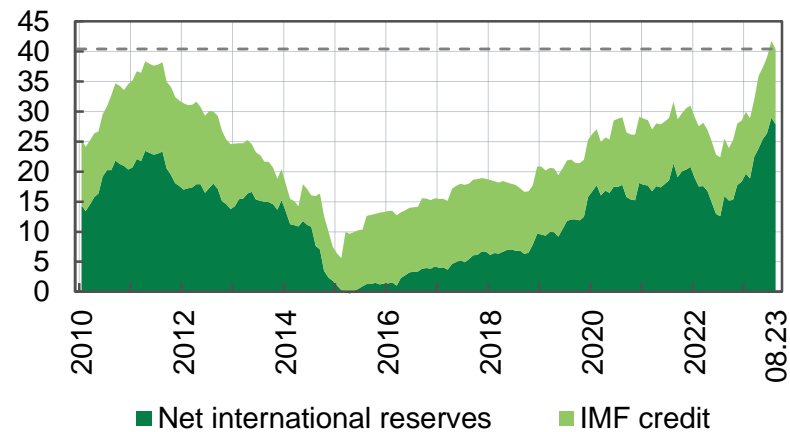
Financial account: net external liabilities, USD bn



* Including net errors and omissions.

Source: NBU.

International reserves, USD bn



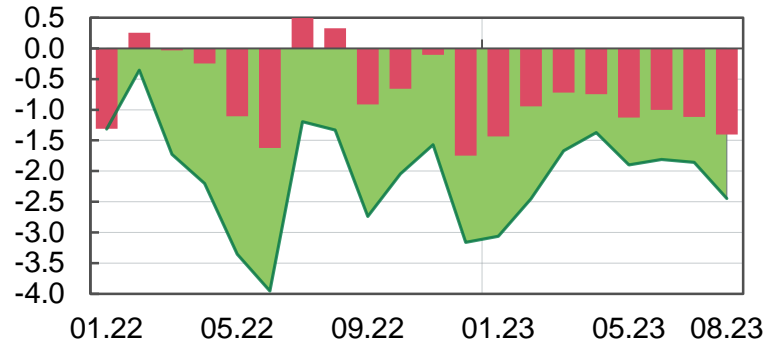
Source: NBU.



Ukraine: Monetary sector

In August, NBU saw an increase in FX sales, primarily due to seasonal and situational increase in demand for foreign currency

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



■ NBU's interventions ■ Balance of customer operations

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

- The primary factors contributing to the slight weakening of the FX cash exchange rate and widening of spread were:
 - the return of the seasonal factor – an increase in demand for foreign currency
 - a situational uptick in demand for cash foreign currency due to revoke of the license for a major player in the FX market amid systematic violations
- However, by the end of the month, the spread began to narrow again, in particular, thanks to the NBU's authorization for online currency sales. Exchange rate expectations remain stable

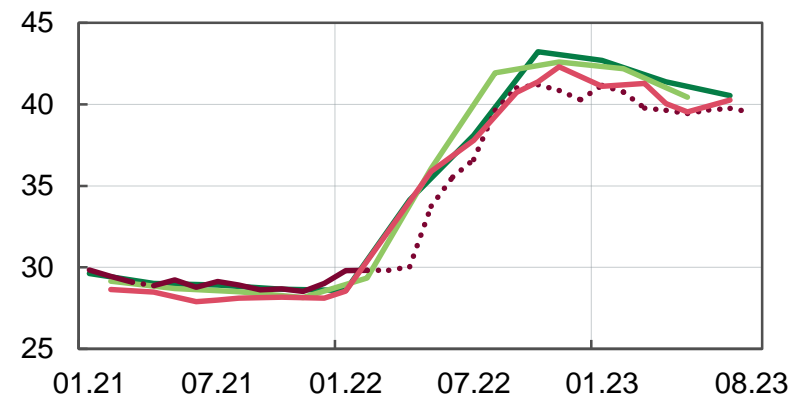
Hryvnia exchange rates, UAH per USD



— Cash market ask — Official exchange rate
— Gray market ask

Source: NBU, open data sources.

12-month-ahead exchange rate expectations, %

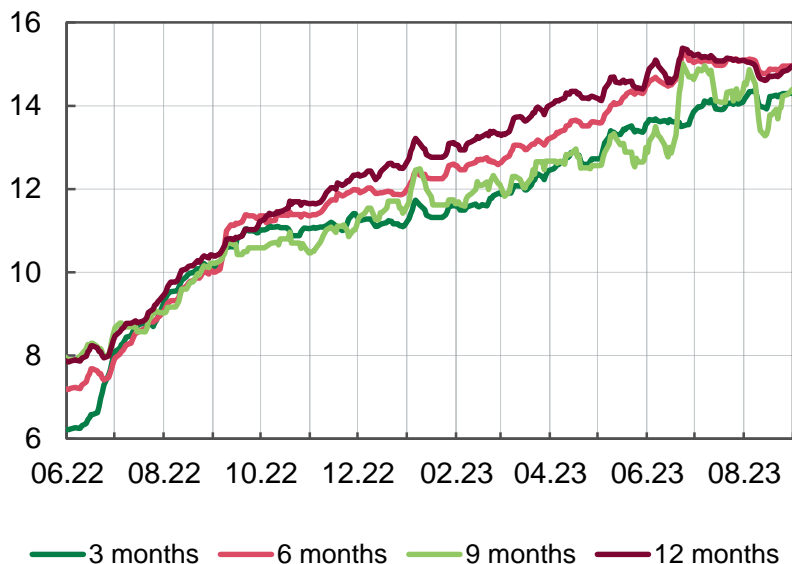


— Banks — Corporates
— Households* — Financial analysts

* The dotted line indicates a change in the method of survey for a telephone interview. Source: NBU, Info Sapiens. 31

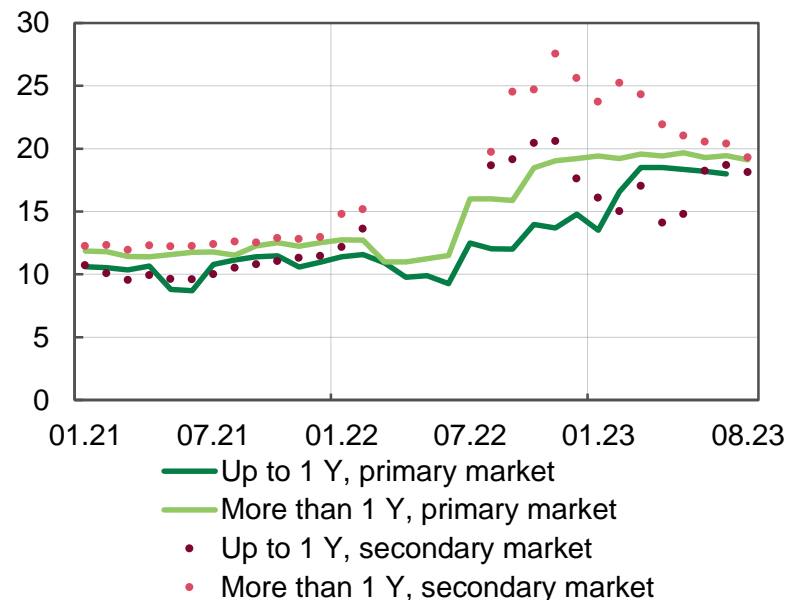
As anticipated, banks react moderately to the NBU's key policy rate cut

Ukrainian Index of Retail Deposit rates*, %



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

Yields on hryvnia domestic government T-bills & bonds, %

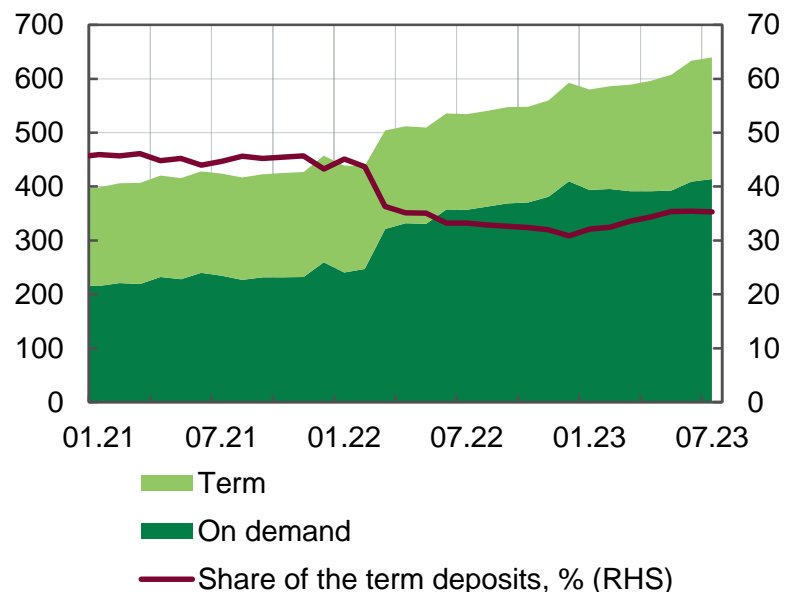


Source: NBU.

- Although banks typically decrease deposit rates more swiftly than they increase them, the unconventional operational design of monetary policy and prior increase in reserve requirements are restraining this process
- The willingness of investors to lock in yields allowed the Ministry of Finance to lower interest rates during initial placements. Profitability in the secondary market is nearly on par with the primary market

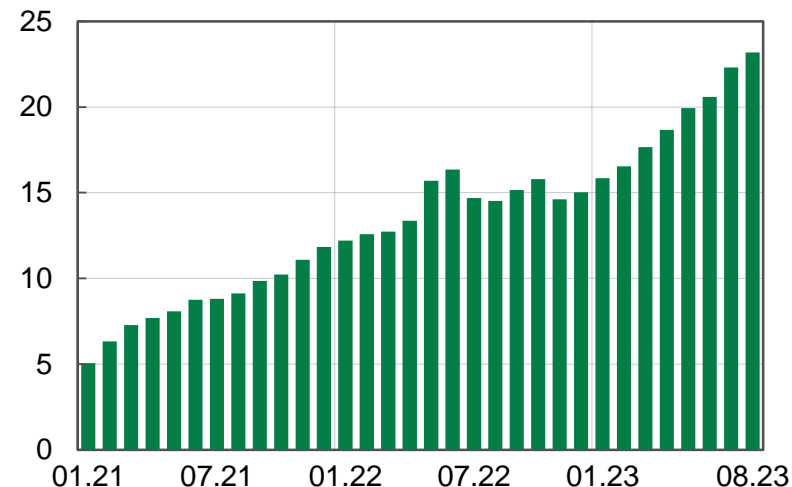
Hryvnia assets remain attractive in real terms

Hryvnia retail deposits, UAH bn



Source: NBU.

Hryvnia domestic gov't T-bills & bonds held by individuals (by outstanding nominal volume), UAH bn



Source: NBU.

- The slowdown in inflation coupled with the improvement in inflation expectation allow hryvnia assets to remain attractive, despite nominal rate cuts
- Retail term deposits in hryvnia have continued to grow (by 23.4% ytd over January-July 2023)
- The portfolio of hryvnia domestic government debt securities held by individuals (residents) has been steadily expanding. This serves as an additional evidence of hryvnia assets staying attractive