



National Bank
of Ukraine

Macroeconomic and Monetary Review

October 2024

Monetary Policy and Economic Analysis
Department



Summary

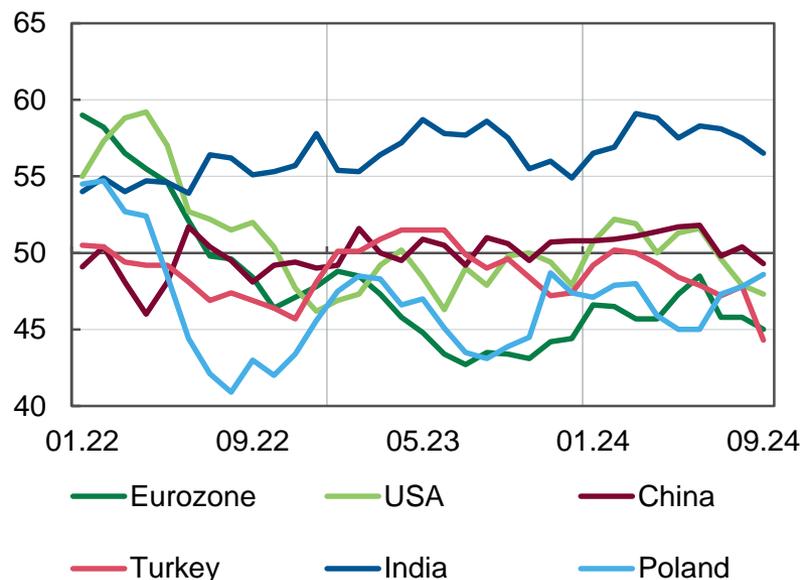
- **Economic growth of Ukraine's MTPs slowed, and inflationary pressures eased further.** Global oil prices temporarily collapsed due to expectations of oversupply, while natural gas prices remained stable. Prices for commodities prevailing in Ukraine's exports resumed their growth after a significant decline. Leading central banks cut their interest rates, while most EM central banks adopted a wait-and-see approach
- **In August, consumer inflation accelerated to 7.5% yoy** (up from 5.4% yoy in July) in line with expectations, primarily due to a limited supply of certain food products. However, core inflation rose more than projected, driven by the pass-through of higher business costs for raw food inputs, energy, and labor to prices. Inflationary pressures were also amplified by the effects of the hryvnia depreciation in previous months. According to NBU's estimates, inflation continued to accelerate in September
- In September, **economic activity continued to recover in a number of sectors** amid a mostly stable situation in the energy system, the reliable functioning of the sea corridor, and faster harvesting of late crops compared to last year. As a result, transportation volumes continued to increase, and industry and agriculture expanded.
- In September, **the demand for labor continued to grow**, driven by a pickup in economic activity, while resume numbers are no longer declining. However, **the shortage of workers remains an acute problem for businesses** and keeps nominal wages rising at a high rate
- In September, **the state budget deficit (excluding grants in revenues) narrowed slightly**. Budget needs were financed mainly by international aid accumulated in August, along with domestic borrowing, which in September reached its highest level since the beginning of the year
- In August, **significant volumes of international financial assistance led to both a surplus in the current account and a capital inflow in the financial account**. Additionally, the merchandise trade deficit narrowed somewhat. As a result, **gross international reserves rose** to USD 42.3 bn as of the end of August
- **In September, the NBU kept the key policy rate at 13% and increased the volume of its FX sales** to ensure a sustainable situation in the FX market and mitigate inflationary pressures. **These measures helped maintain households' interest in hryvnia savings:** term deposits resumed growth, and investments in domestic debt securities continued to rise



External Environment

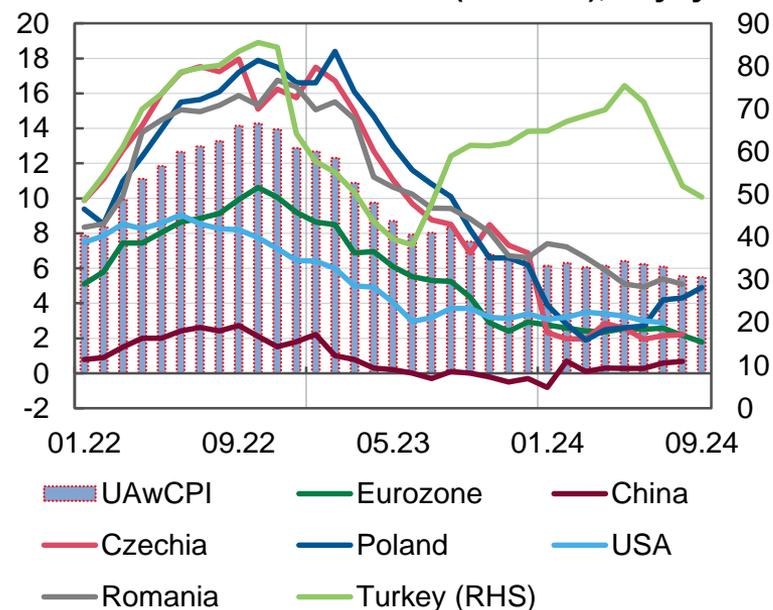
Economic growth of Ukraine's MTPs slowed, and inflationary pressures eased further

Manufacturing PMI of selected countries



Source: S&P Global.

CPI in selected countries and Weighted Average of Ukraine's MTP countries' CPI (UAWCPI), % yoy

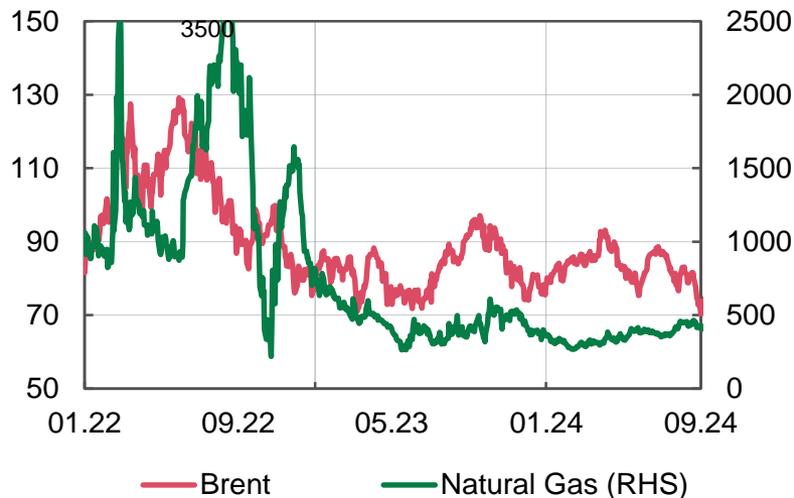


Source: national statistical offices, NBU staff estimates.

- Leading indicators showed signs of a further slowdown in manufacturing in Ukraine's MTPs, while the service sector expanded steadily. Companies are cutting back on production as new orders decline and international trade remains weak, primarily due to geopolitical conflicts
- At the same time, indicators show a steady easing of price pressures in global manufacturing, with the supply shortage below its long-term average. Prices for semiconductors experienced the sharpest decline, falling for the first time in a year
- Inflationary pressures from Ukraine's main trading partners (UAWCPI) eased further due to slower growth in input costs and selling prices, as well as improved availability of transportation, food, and textiles

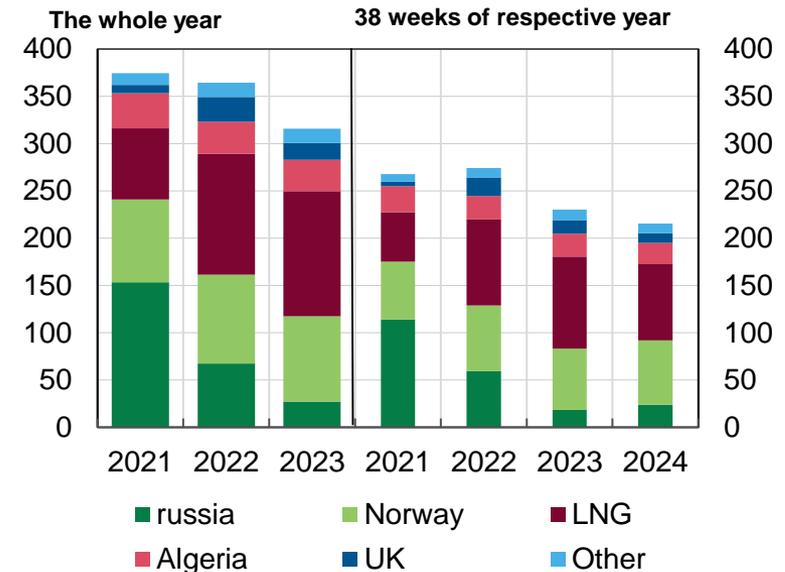
Global oil prices temporarily collapsed due to expectations of oversupply, while natural gas prices remained stable

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



Source: LSEG.

Natural gas imports to the EU by origin, bcm

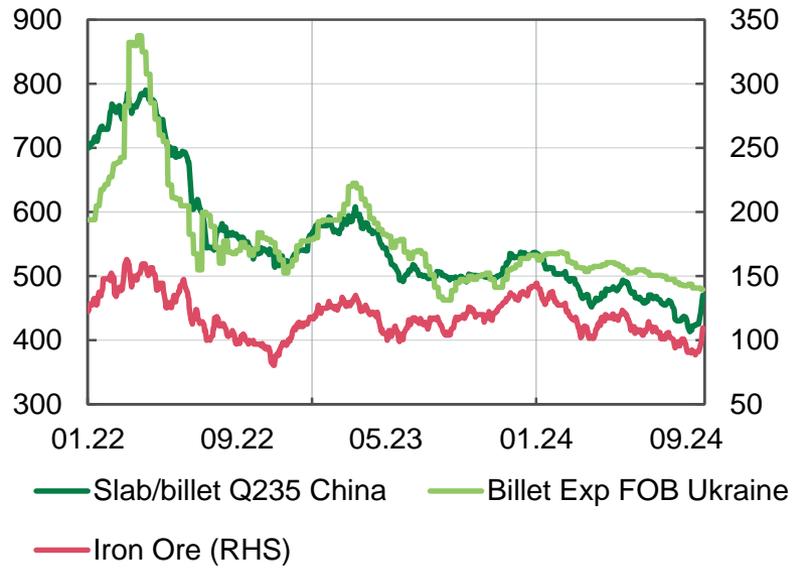


Source: Bruegel (Russia, Norway, Algeria – pipelines).

- Global oil prices fell sharply due to growing expectations of increased supply from the United States, Libya, and OPEC+ amid relatively weak global demand. However, the Fed's interest rate cuts and the introduction of additional incentives in China have inspired optimism in the market and led to a resumption of price growth. An additional significant factor contributing to the price increase was the intensified geopolitical tensions in the Middle East, which might create supply disruptions
- Gas prices in Europe fluctuated within a relatively narrow range. Nearly full gas storage facilities in Europe and relatively weak demand put downward pressure on prices. At the same time, limited supply in the market caused by maintenance of several gas infrastructure facilities in Norway, reduced Australian exports due to higher domestic consumption, and a temporary shutdown of gas production in the Gulf of Mexico due to a hurricane put upward pressure on prices

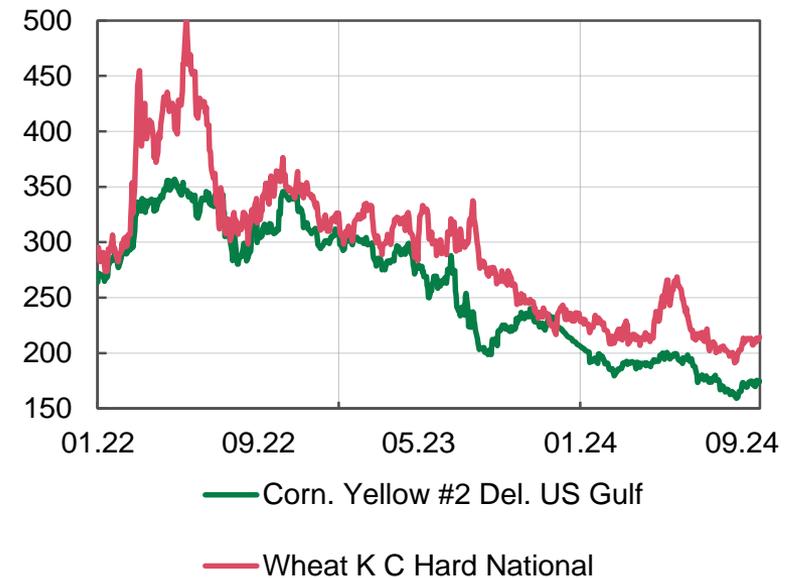
Prices for commodities prevailing in Ukraine's exports resumed their growth after a significant decline

Global steel and iron ore prices, USD/MT



Source: LSEG, Delphica.

Global grain prices, USD/MT

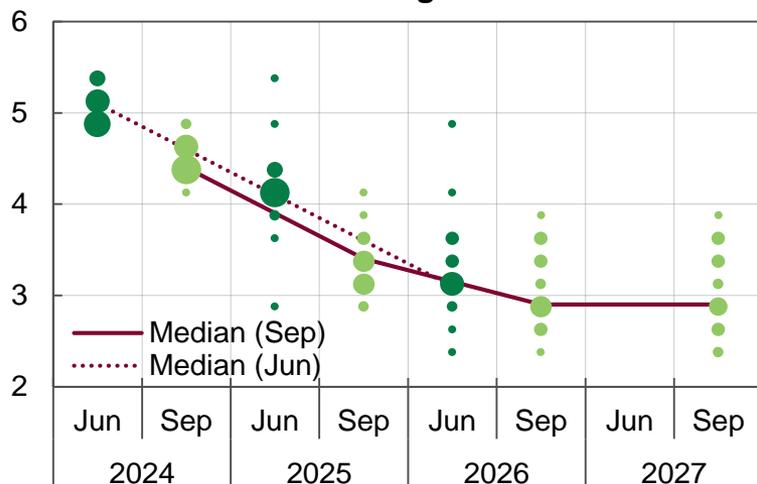


Source: LSEG.

- Steel and iron ore prices declined amid steady production volumes, primarily in China, in a highly competitive environment with only a weak recovery in seasonal construction demand in most regions of the world. However, in late September, market sentiment improved significantly as a result of several stimulus measures introduced by the People's Bank of China, which led to a sharp rise in prices
- Wheat and corn prices resumed their growth after a long decline. Droughts in the Black Sea region, parts of the US, and Latin America have delayed the start of winter crop sowing and dampened expectations for the next harvest. However, the current active supply of grain to the market, amid high competition, is preventing a more significant increase in prices

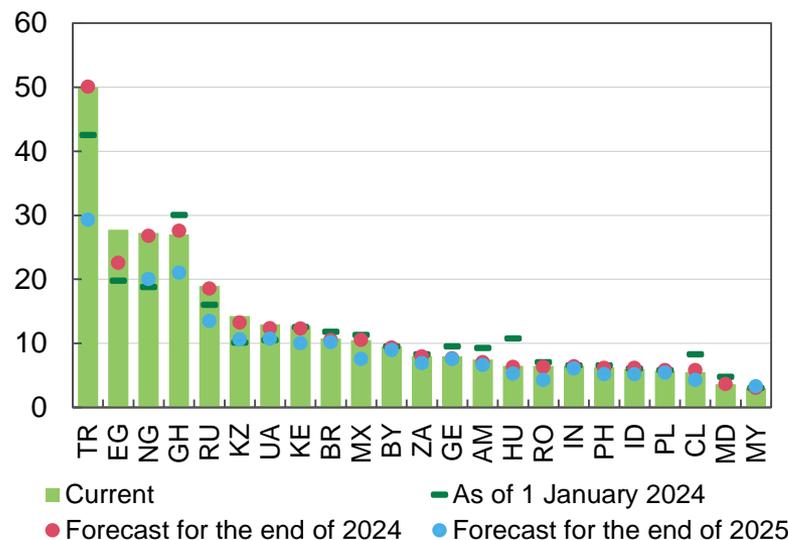
Major CBs are cutting interest rates amid slowing inflation, while EM CBs are mostly taking on a wait-and-see approach

The number of FOMC* members that expect the respective policy rate at the end of the year, based on the results of the meetings



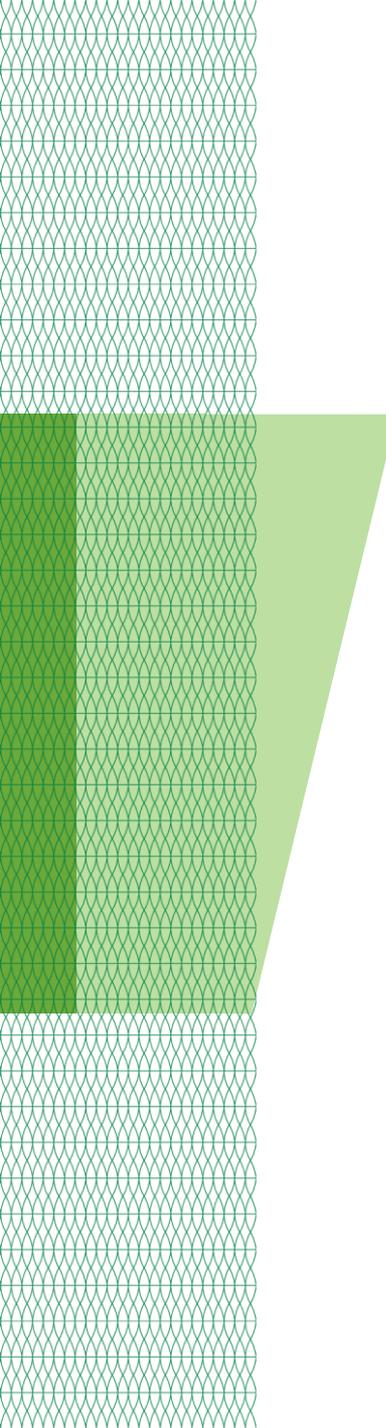
* The size of the circle is determined by the number of participants supporting the respective rate level.
Source: Fed.

Key policy rates in selected EM countries, %



Source: official web pages of central banks, Focus Economics, Oxford Economics, as of 30.09.2024.

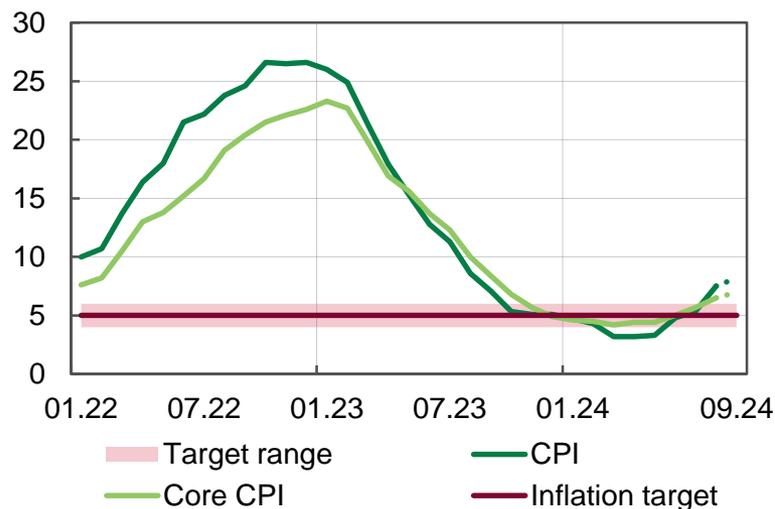
- The Fed has aggressively started cutting rates amid signs of a cooling labor market, and is forecasting a slightly faster and shallower monetary policy easing cycle. The ECB has cut rates by 25 bp for the second time and still expects headline inflation to return to its target in H2 2025. CBs are not pre-committed to a particular rate path and will rely on data in their decision-making
- Financial markets are now pricing in an additional 50 bp in rate cuts by CBs by the end of 2024, and by a total of 175 bp for the Fed and 150 bp for the ECB by September 2025
- EM CBs are slowing the pace of rate cuts and are predominantly adopting a wait-and-see approach as the balance of risks shifts towards inflationary ones. By contrast, the CB of China has announced policy easing measures and a stimulus package to support the economy, while the CB of Mexico could consider larger rate cuts as inflation slows



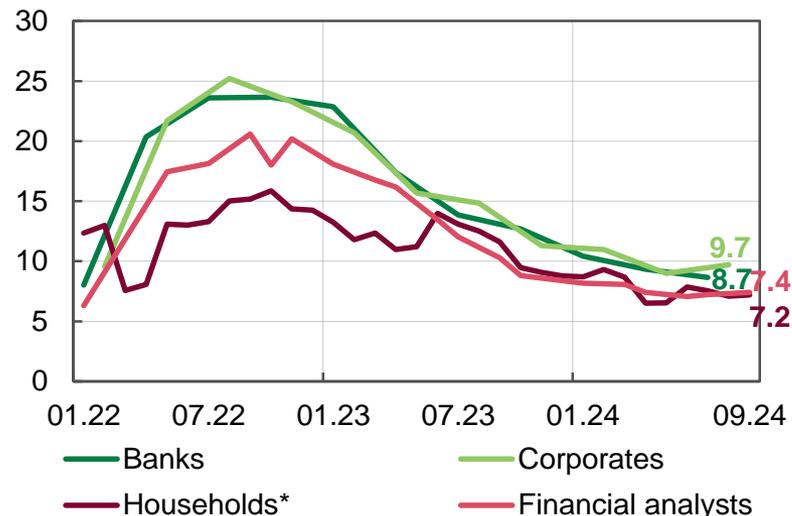
Ukraine: Inflation

Price pressures continued to increase as expected

Inflation* and inflation target, % yoy



Inflation expectations for the next 12 months, %



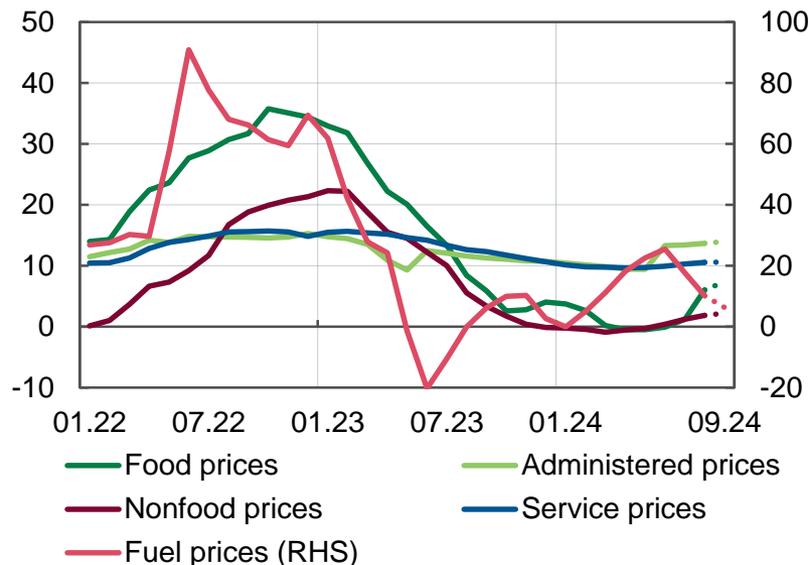
* Data for September reflects nowcast.
Source: SSSU, NBU staff estimates.

* In March 2023, the survey method was changed from face-to-face to telephone interviews.
Source: NBU, Info Sapiens.

- The actual consumer inflation in August accelerated as expected and only slightly exceeded the trajectory of the NBU's forecast published in the [July 2024 Inflation Report](#). The uptick was mainly driven by an increase in food inflation amid lower supply due to dry weather
- Underlying inflationary pressures also intensified in August. Core inflation accelerated to 6.5% yoy, up from 5.7% yoy in July. These dynamics were slightly ahead of the trajectory in the NBU's July forecast,, caused primarily by a faster rise in the prices of processed foods due to the second-round effects of higher raw material prices and production costs, including for energy and labor. However, inflation expectations remained generally stable
- According to NBU's estimates, inflation accelerated further in September

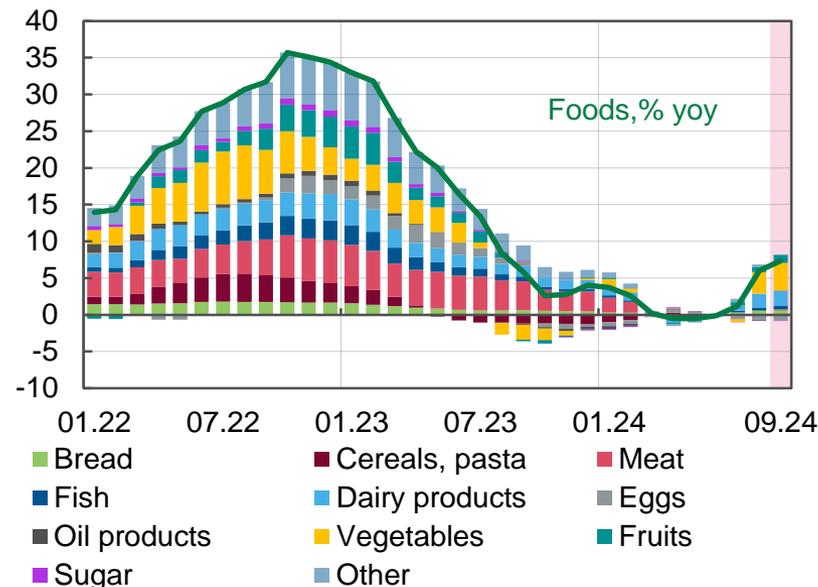
Growth in food and nonfood prices accelerated

Selected CPI components*, % yoy



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

Contributions to the annual change in food prices*, pp

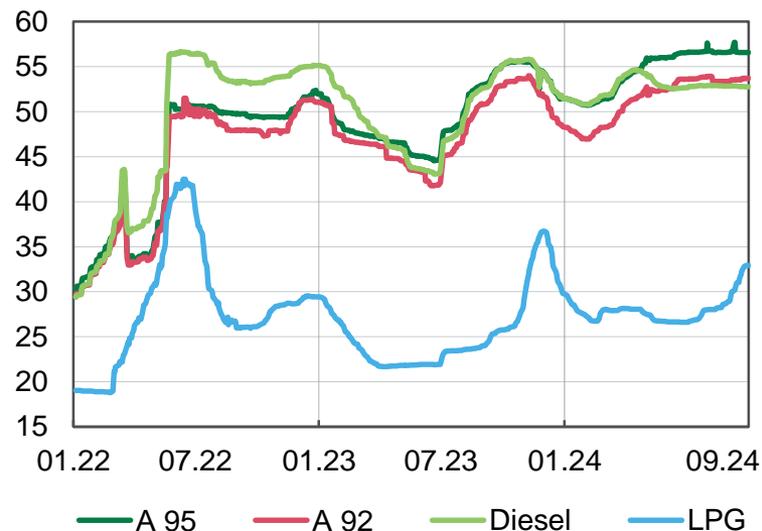


* Data for September reflects nowcast.
Source: SSSU, NBU staff estimates.

- The growth in food prices accelerated sharply in August, as prices for raw foods started to grow again amid reduced food supply caused by unfavorable weather conditions
- Prices for processed foods also rose at a faster pace, both due to the second-round effects of higher costs of raw food inputs and further increase in businesses' costs for energy and labor
- The growth in prices for most nonfood products accelerated, largely driven by the exchange rate factor. Meanwhile, clothing and footwear prices declined faster, likely due to growing competition between imports and products made in Ukraine. The growth in prices for services picked up slightly, being under pressure from business production costs

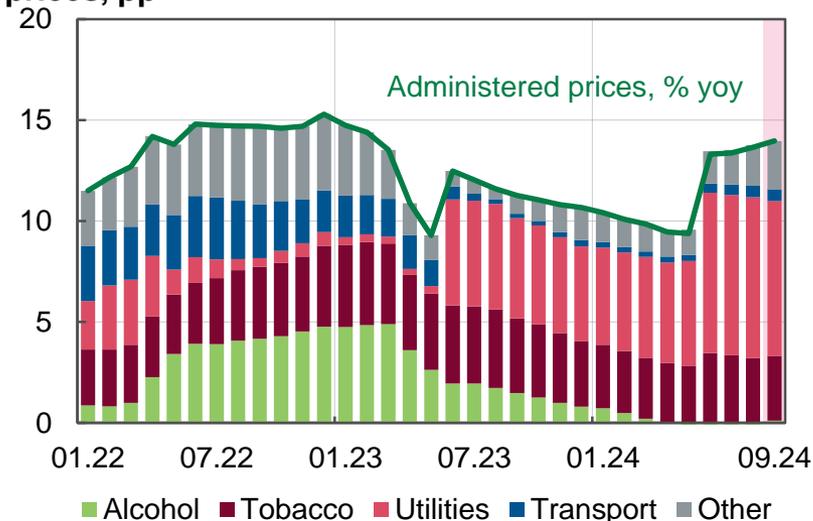
Administered inflation accelerated slightly, while fuel price growth slowed down

Fuel prices, UAH / L



Source: minfin.com.ua.

Contributions to the annual change in administered prices, pp



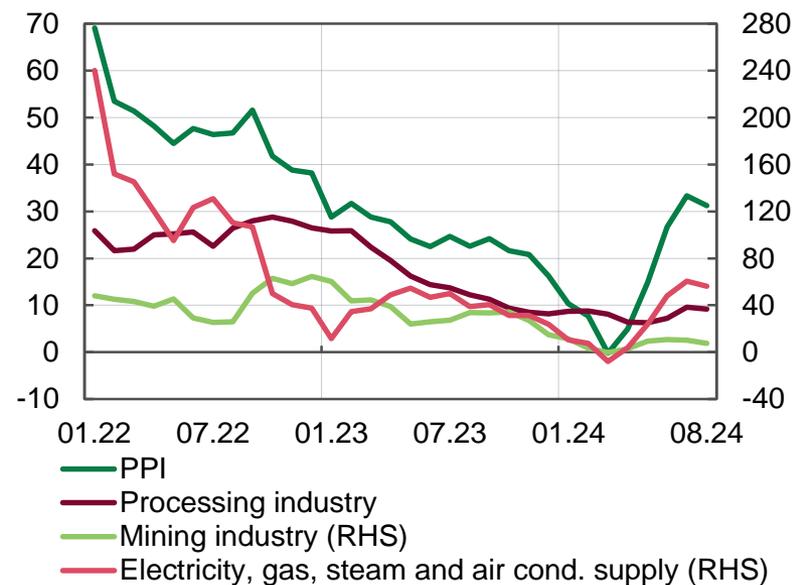
* Data for September reflects nowcast.

Source: SSSU, NBU staff estimates.

- Fuel price growth slowed in August reflecting sufficient [fuel stocks and lower-than-expected global oil prices](#)
- Prices for alcoholic beverages declined at a less rapid pace. Despite a slight slowdown, the growth in prices for tobacco products remained fairly high, partly due to efforts to combat shadow market supply
- Moreover, prices for pharmaceuticals and medical supplies and equipment rose at a faster rate, likely influenced by the exchange rate factor
- Meanwhile, the moratorium on raising certain utility prices for households continued to restrain the increase in administered prices

The growth in producer prices slowed slightly in August but remained elevated

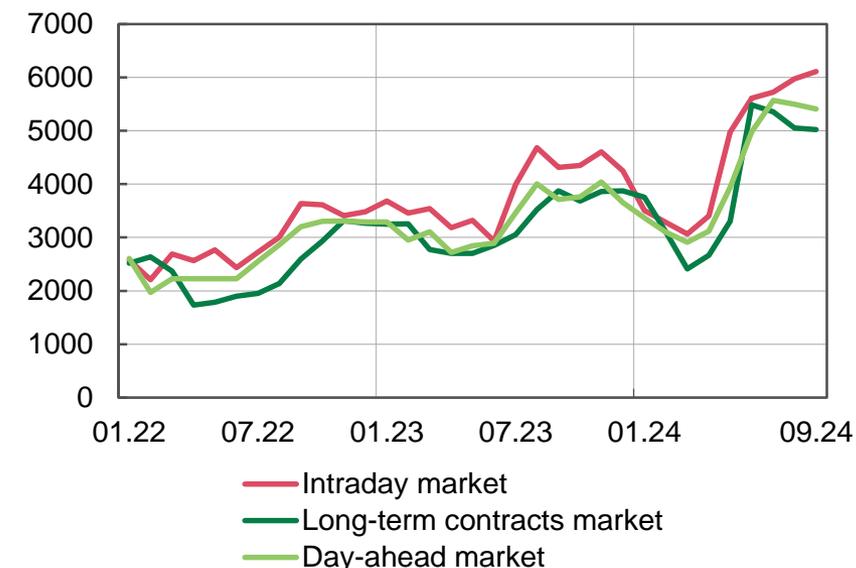
PPI and its components, % yoy



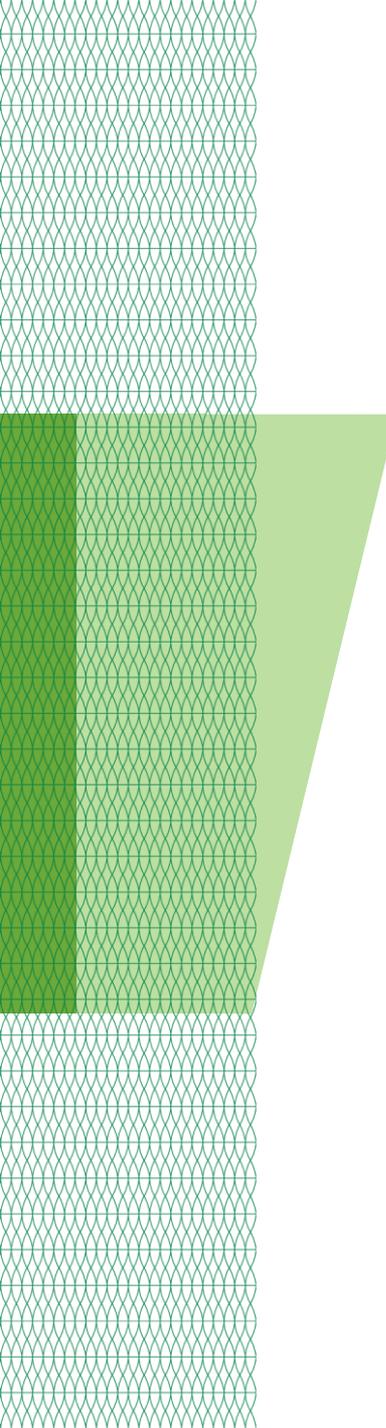
Source: SSSU.

- PPI decreased slightly (to 31.2% yoy in August compared to 33.3% yoy in July), mainly due to a slowdown in energy prices (to 56.2% yoy)
- Deceleration of price growth in food processing was primarily caused by a significant drop in sugar production attributed to [high ending stocks](#) and the start of the new season, [which began in late August](#)
- Additionally, price growth in the mining industry slowed due to a decline in prices for crude oil and metal ores, reflecting price dynamics in global markets. Meanwhile, domestic prices remained under pressure from [high costs of imported electricity and logistics](#)

Electricity prices for non-household consumers, UAH/MWh



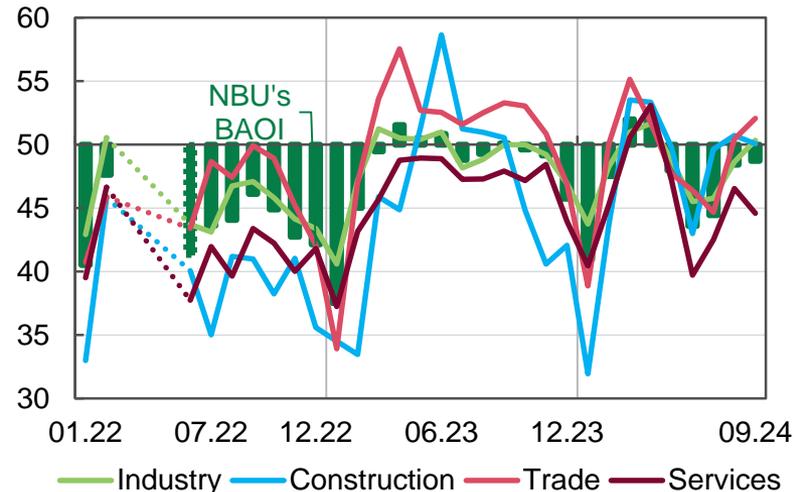
Source: Ukrainian Energy Exchange, Market operator.



Ukraine: Economic activity

In September, economic activity continued to pick up in a number of sectors

NBU's Business Activity Outlook Index, p

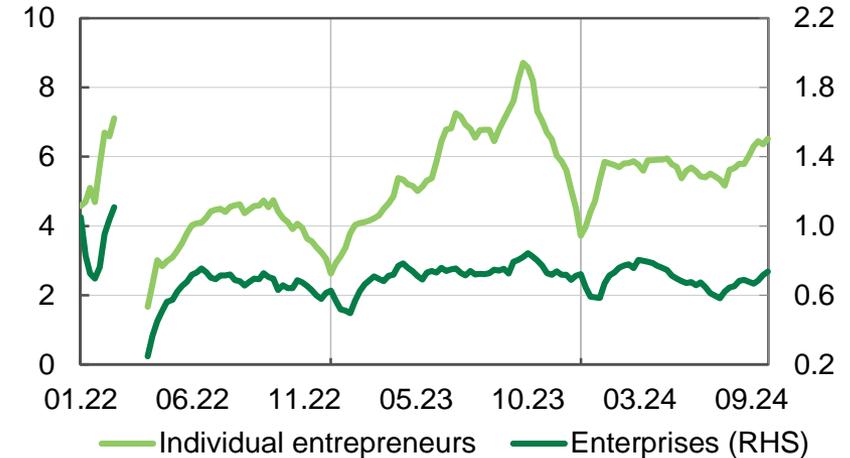


A level above 50 indicates predominantly positive expectations. Survey was not conducted from March to May 2022.

Source: NBU.

- In September, business expectations continued to improve amid a stable situation in the energy sector, quick harvesting of late crops, and the reliable functioning of the sea corridor. As a result, economic activity continued to expand in key sectors, including industry, agriculture, and transportation
- At the same time, the activity in the service sector weakened mainly reflecting seasonal factors as the vacation season ends

New business registrations (4-week moving average), thousands



Source: opendatabot.ua.

Number of UZ tickets sold per week, % to pre-war level



Source: opendatabot.ua.

Consumer demand remained resilient despite a slight deterioration in consumer sentiment

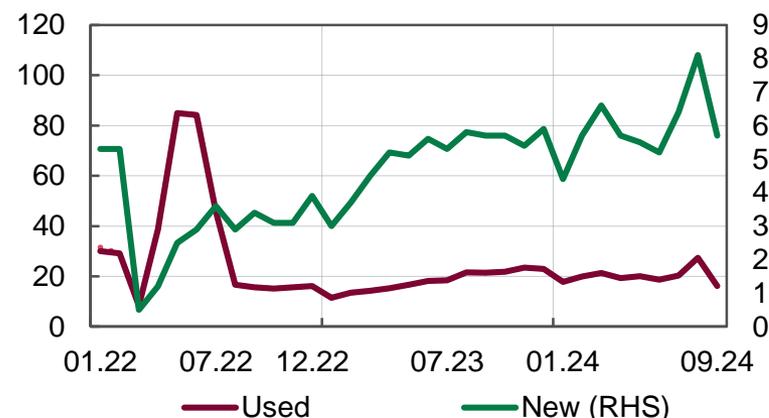
The number of online purchases of goods, % to pre-war level



Source: Opendatabot (Khoroshop service).

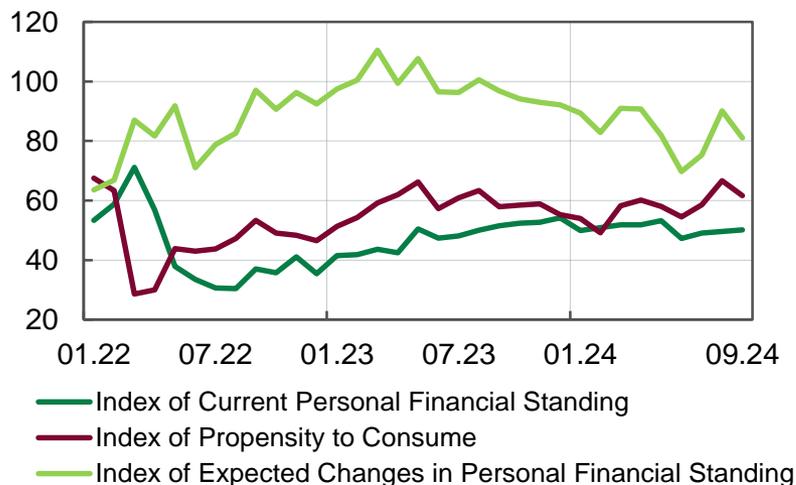
- [Shorter air alerts](#) and the [extension of the back-to-school shopping season](#) into mid-September supported trade
- As of early September, [mall vacancy rates](#) were close to their pre-war level. However, further growth in retail trade is constrained by the [lack of personnel](#) and [worsening security situation](#) in the southeastern regions
- [New car sales](#) fell by 30% mom and 1.7% yoy in September after significant growth in August amid the anticipation of tax changes

The first registration of passenger cars, thousand units



Source: Ukravtoprom.

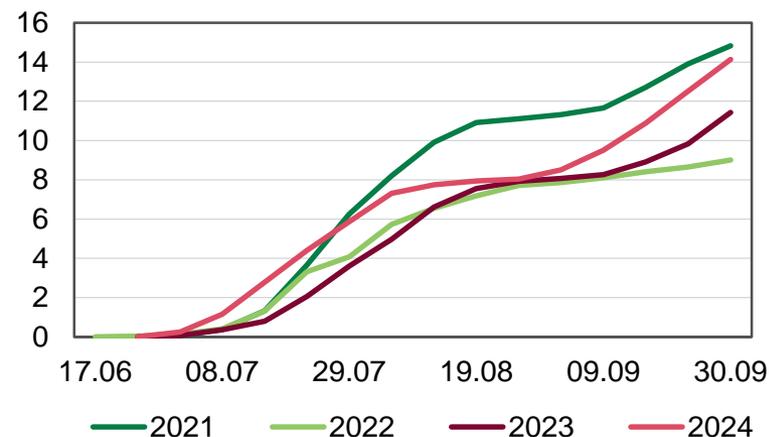
Components of the consumer sentiment index, p



In March 2023, the survey method was changed from face-to-face to telephone interviews. Source: Info Sapiens.

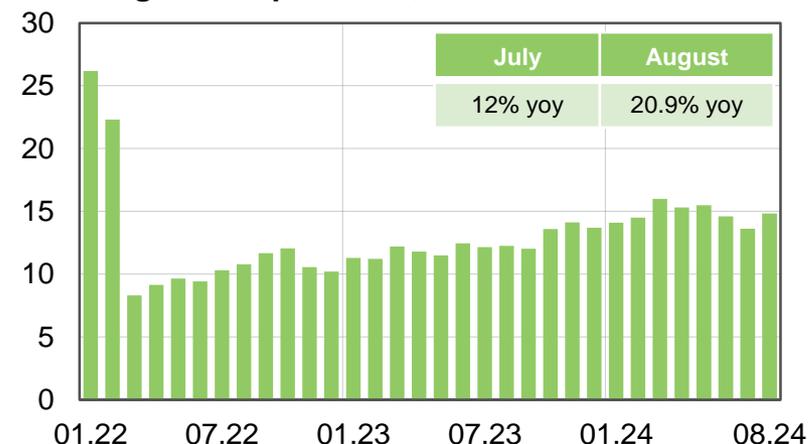
The late crop harvesting is ahead of last year's pace, while the shortage of raw inputs constrains agricultural processing

Harvested areas of the main agricultural crops, million hectares



Source: MinAgro.

Rail freight transportation, million tons

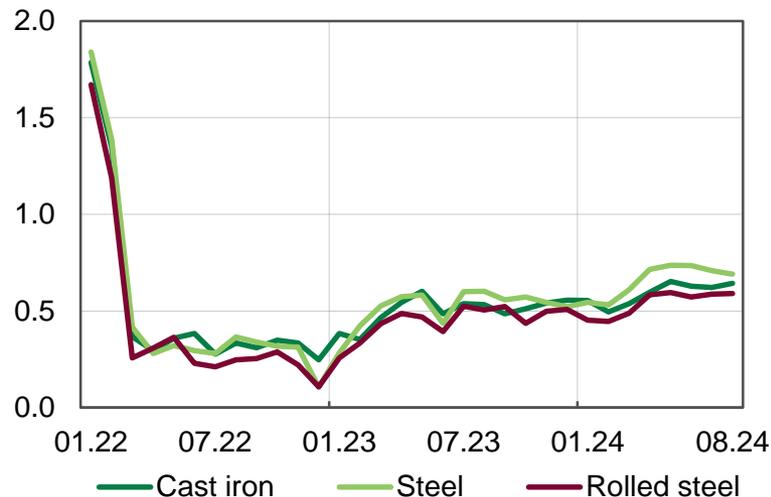


Source: SSSU, Rail.insider, UZ.

- Harvesting of late crops continues at a much faster pace than last year. Accordingly, the volume of threshing of late crops at the end of September was 19% higher compared to 2023. However, their yield and quality are lower than last year because of the drought
- At the same time, the stable functioning of the sea corridor contributed to higher exports, even resulting in a shortage of high-quality raw inputs for processing in the food industry. This constrained the production of [flour](#), [oil](#), [rapeseed processing](#), and [feed production](#), which, in turn, [worsened the conditions for animal husbandry](#)
- [Increased exports](#) and the stabilization of temperatures [supported dairy processing](#) in September, but lower pork supply due to numerous outbreaks of ASF [constrained meat processing](#)
- The [sugar-making season](#) is gaining momentum. Thanks to the good yield of sugar beet, [production volumes](#) are expected to be sufficient to meet the needs of the domestic market
- The operation of the sea corridor and the arrival of the new harvest supported the transportation sector. Notably, [transshipment volumes at sea ports](#) more than doubled year-on-year, while [rail transportation of grain](#) in September increased by 54% yoy

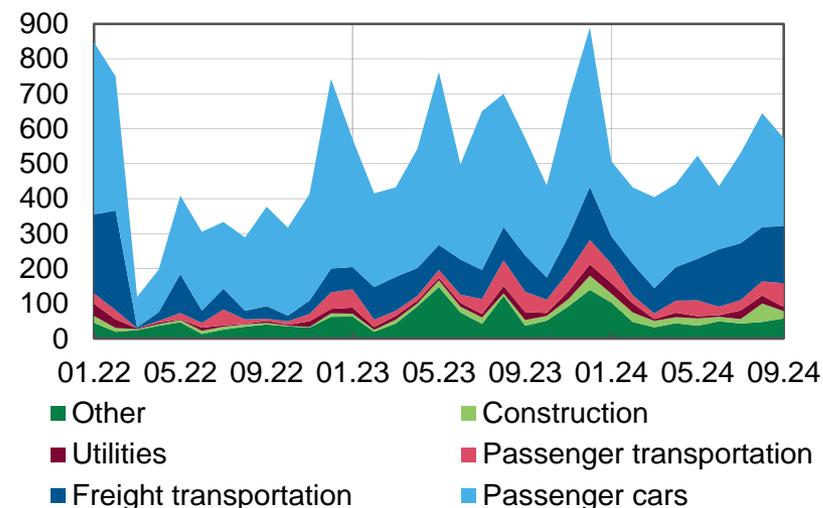
Stabilization in the energy sector supported manufacturing

Production of steel, cast iron and rolled steel, million tons



Source: Ukrmetallurgprom.

Registration of vehicles manufactured in Ukraine by field of use, units



Source: Ministry of Internal Affairs.

- The stable energy situation in September, along with the availability of the sea corridor for metallurgical export supported the revitalization of the metallurgy sector. At the same time, in anticipation of a tough winter season, [enterprises plan to scale back their production facilities](#); in addition, part of the capacity has been [taken offline for repairs](#)
- The increased [production of munitions](#) boosted the output of finished metal products, while the production of [military equipment](#) and [railway wagons](#) supported engineering. Car production also picked up in September, particularly to meet the needs of construction and cargo and passenger transportation. [Fertilizer production facilities in the chemical industry were also expanded](#)
- In the mining industry, [gas production](#) facilities continued to expand and [coal mines damaged by shelling were being restored](#) in preparation for the heating season

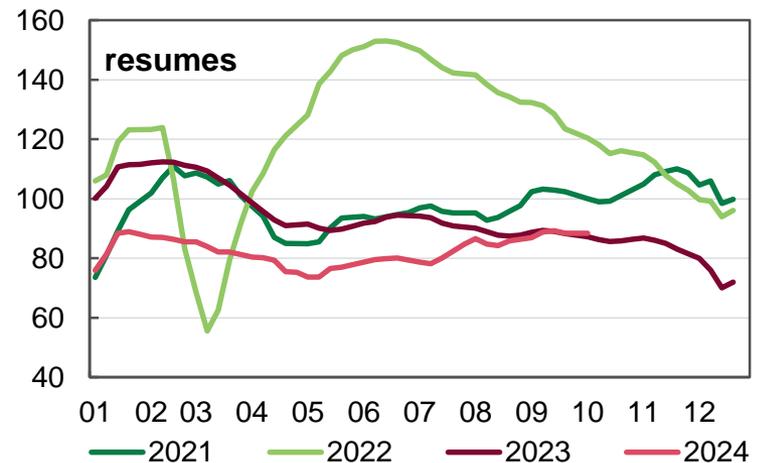
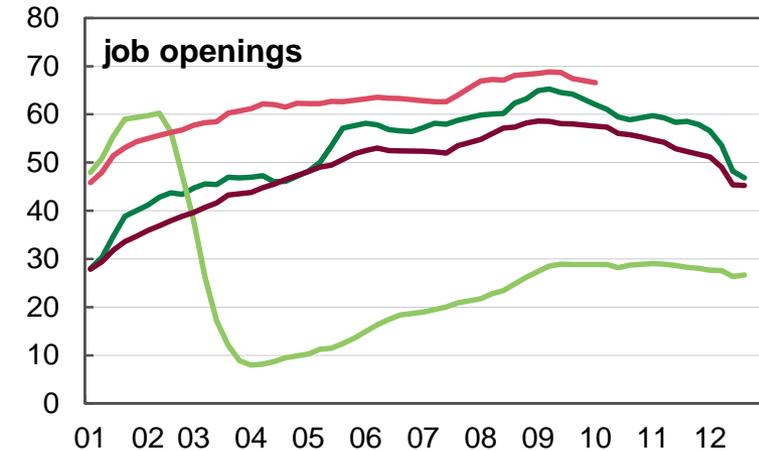
Construction in September was supported by [logistics](#) and [housing development projects for IDPs](#)



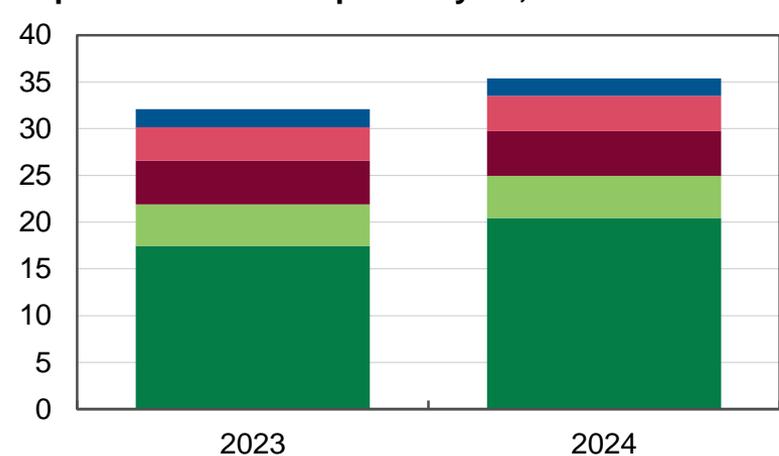
Ukraine: Labor market

Demand for workers continues to grow amid some improvement in labor supply

Labor market indicators, four-week rolling average, thousands



New job openings in the largest cities of Ukraine in September of the respective year, thousands



■ Kyiv ■ Dnipro ■ Lviv ■ Odesa ■ Kharkiv

Source: work.ua, NBU staff calculations.

- The number of new job openings continues to grow compared to last year, particularly in large cities, driven by economic recovery
- At the same time, the number of new resumes stopped declining, which may indicate that Ukrainians are looking for work more actively

Source: work.ua, NBU staff calculations.

Labor shortages remain an important issue for businesses and support wage growth

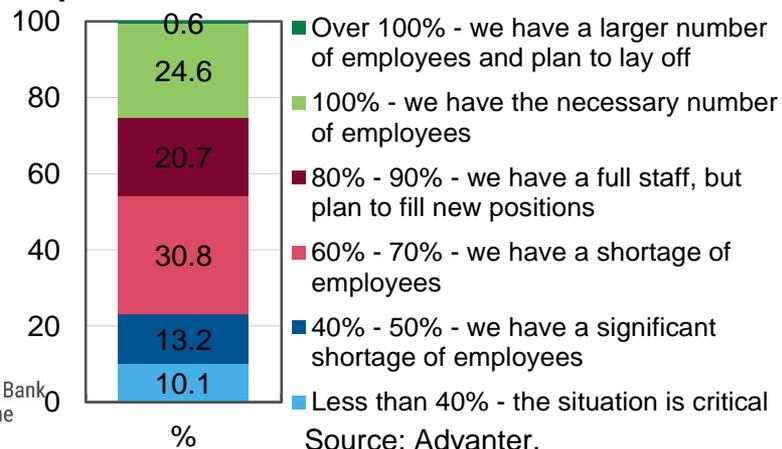
Index for difficulty of finding new employees*



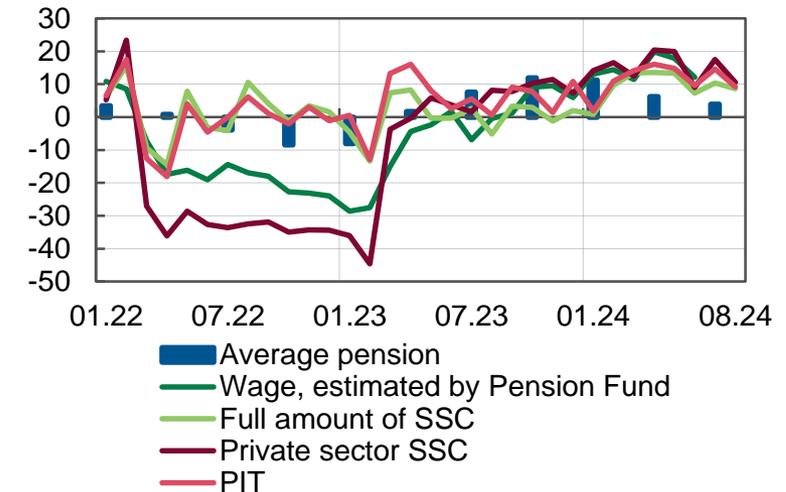
* Difference between the shares of answers: “finding employees has become more difficult” and “finding employees has become easier”.

Source: IER.

What is your current employee staffing level?, % of responses



Indirect indicators for estimating real household income*, % yoy



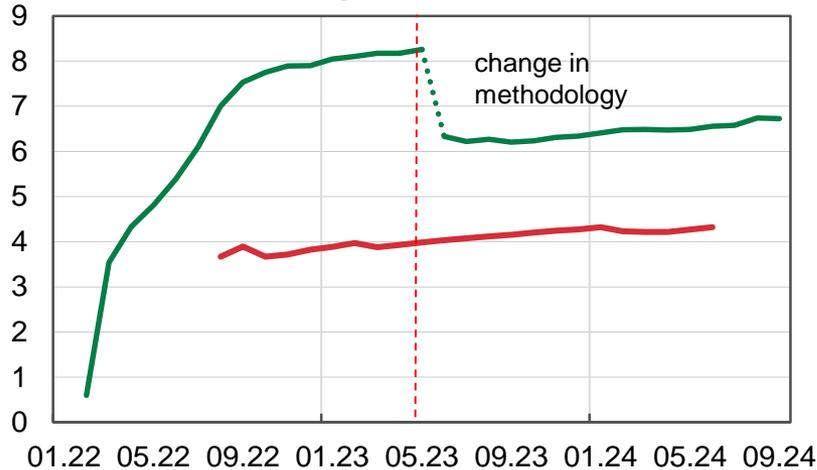
* Deflated by CPI. The private sector SSC is calculated as the difference between total SSC and SSC on wages from the consolidated budget.

Source: Pension Fund of Ukraine, STSU, SSSU, NBU staff calculations.

- According to the IER survey, business assessments of the difficulty in finding employees have stabilized at a high level
- According to the Advanter survey, on average, companies were staffed at 71% in August, with the situation not improving from May (74%)
- Labor shortages keep nominal wage growth high, while real wage growth has slowed due to higher inflation

The number of internal and external migrants remains significant

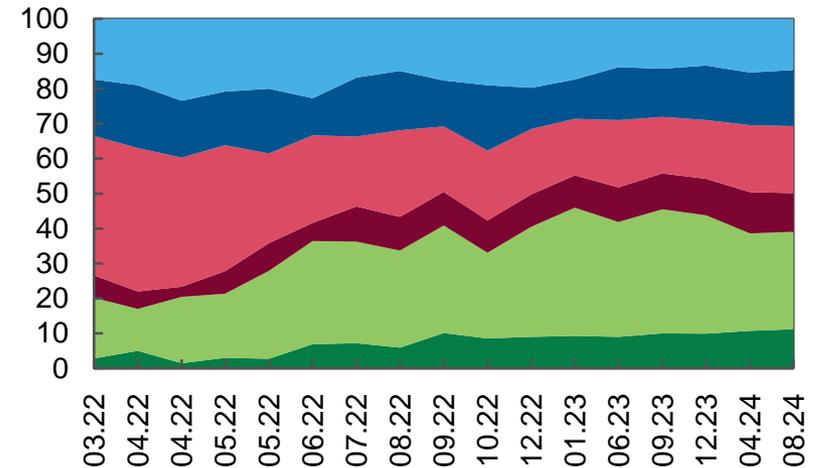
Number of migrants since the beginning of the full-scale invasion, million persons



— All migrants abroad — Temporary protection in the EU

Source: UNHCR, Eurostat.

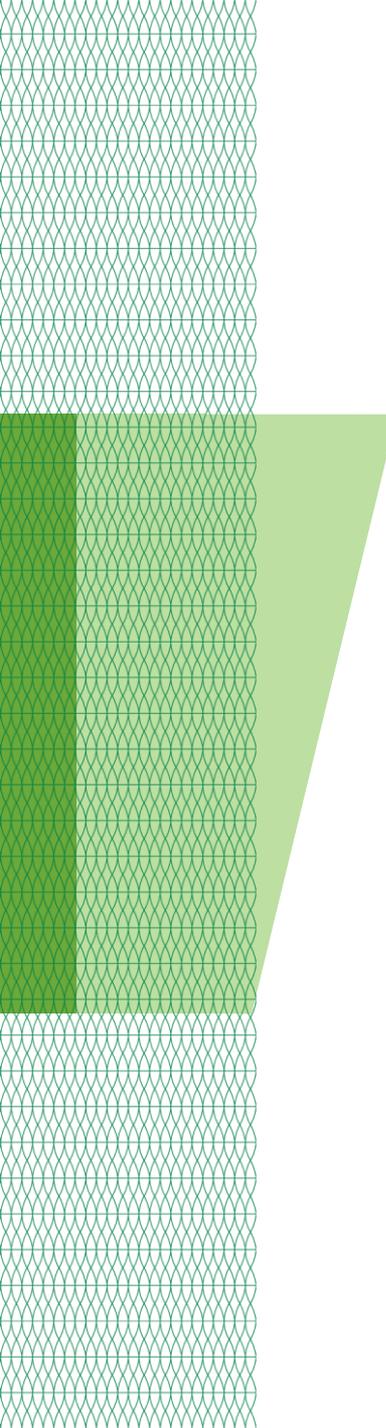
Shares of IDPs by macro-region, %



■ Kyiv ■ East ■ South ■ West ■ North ■ Center

Source: IOM.

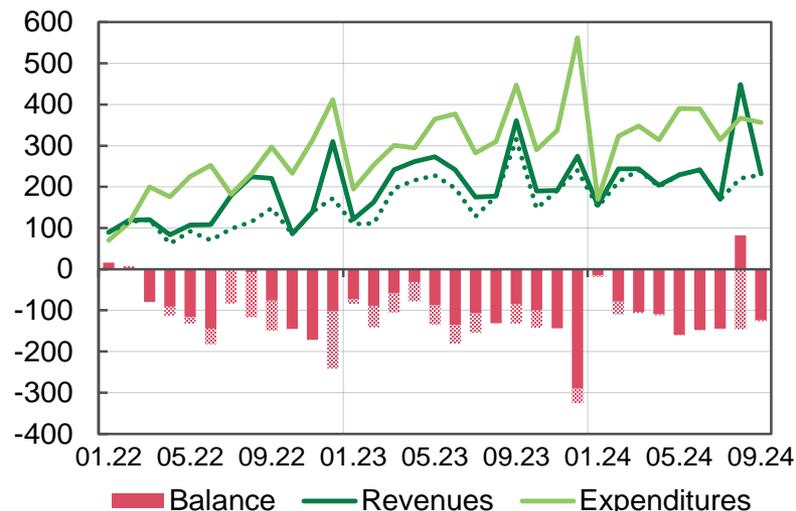
- According to UN estimates, as of 24 September 2024, the number of Ukrainian migrants has remained stable since August, at 6.7 million. Eurostat reports that in June 2024, 4.2 million Ukrainians were granted temporary protection in the EU
- IOM estimates that in August 2024, the number of IDPs was around 3.7 million, with almost a quarter located in two regions – Kharkiv (13%) and Dnipro (12%) oblasts. More than half of IDPs left their place of residence two or more years ago (48% of those who moved within the oblast and 54% of those who moved to another oblast). While most still intend to return after the war ends, an increasing number plan to stay in their new places of residence



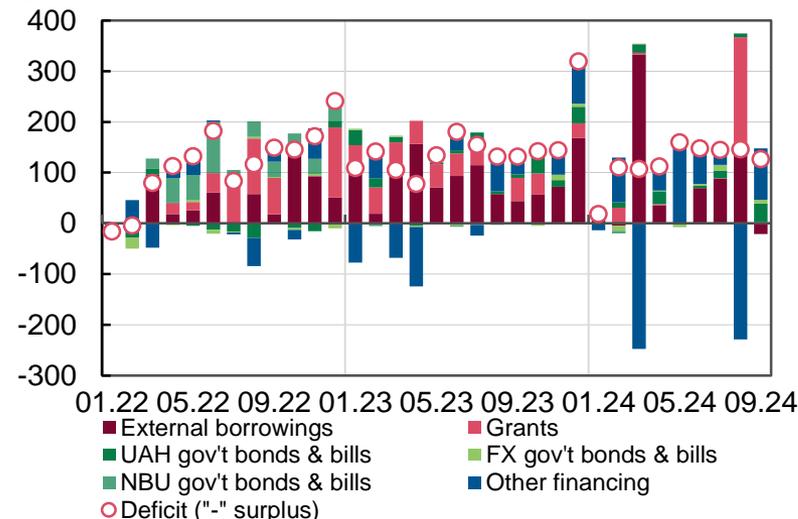
Ukraine: Fiscal sector

The state budget deficit (excluding grants in revenues) narrowed slightly

Main state budget indicators* (monthly), UAH billions



Financing of the state budget balance** (excluding grants in revenues), UAH billions



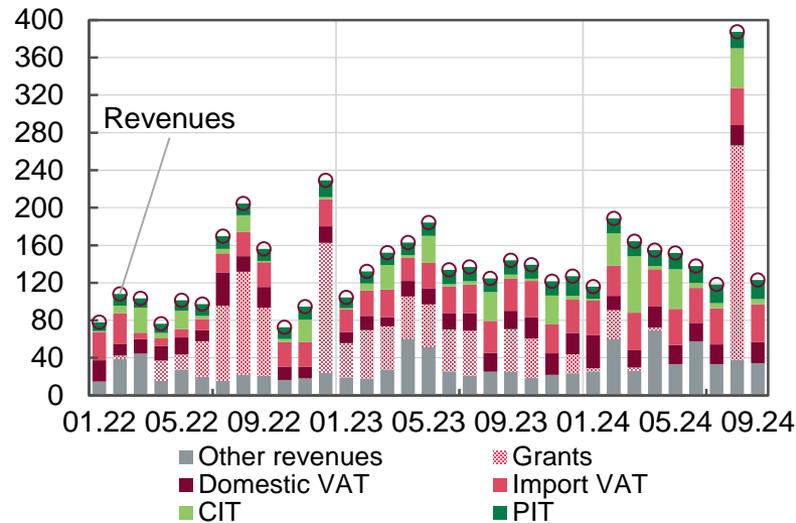
* Dotted lines and patterned fillings show relevant indicators excluding grants. Balance includes net lending. ** Debt transactions are net borrowings. Other financing represents active operations (in particular, includes the change in volumes of gov't funds) and privatization proceeds.

September – preliminary and high-frequency data from the MFU website; the data will be refined. NBU calculations based on the MFU's website data. Source: STSU, MFU, NBU staff calculations.

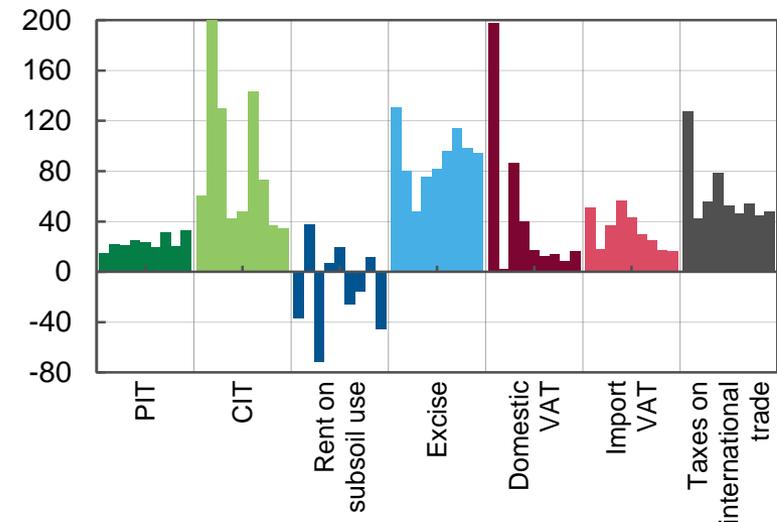
- The state budget deficit (excluding grants in revenues) decreased somewhat compared to the previous months this year but remained, expectedly, quite significant
- In September, the budgetary needs were financed mainly using accumulated funds from the substantial international aid received in August
- Meanwhile, the domestic debt market revived in September. Placements of domestic government securities in both national and foreign currencies were the largest since the beginning of the year, supported by NBU's additional measures to stimulate investments in government securities and a moderate increase in their yields. The total rollover of domestic government securities in nine months was around 160%

Tax revenues continued to grow and remained a stable source of revenues

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



Growth in tax revenues of the state budget's general fund in 2024, monthly*, % yoy

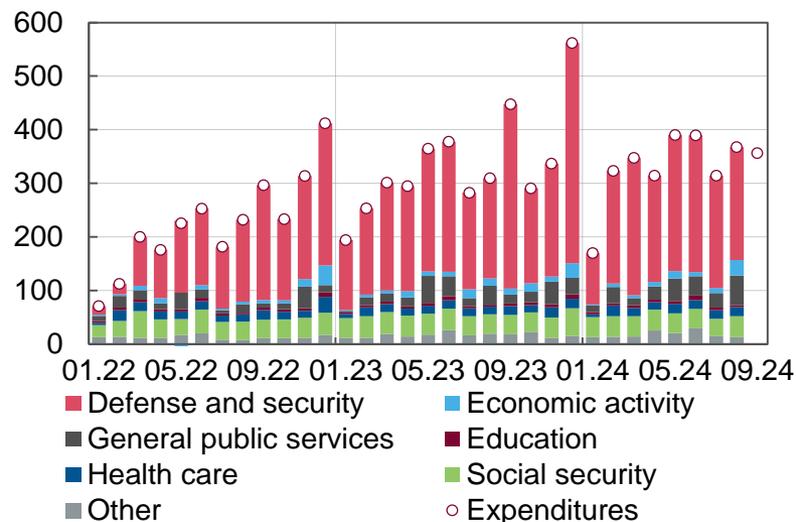


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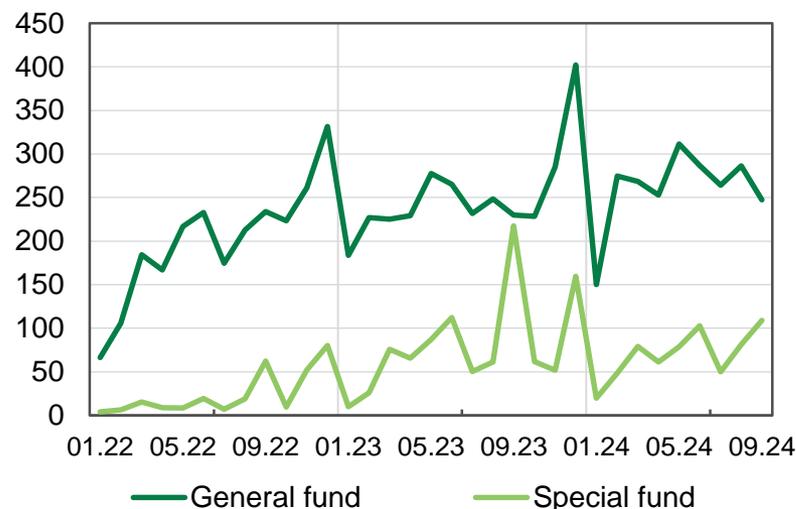
- General fund tax revenues continued to rise, although the pace of their growth decelerated slightly once again (in particular, due to the stabilization of the comparison base following last summer's tax rate hikes and the revocation of certain benefits)
- At the same time, the increase in tax revenues was supported by the continued revival of economic activity, as well as the rise in the excise tax rate on fuel effective from 1 September 2024, coupled with the overall improvements in tax administration

Expenditures remained substantial and were mostly directed towards security and social needs

Expenditures* of the state budget, UAH billions (functional classification)

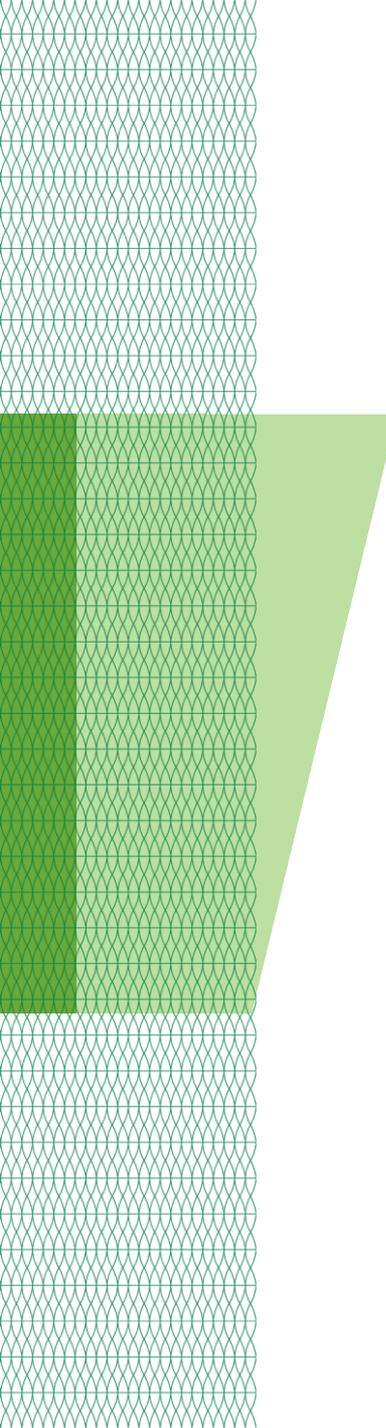


Expenditures of the state budget*, UAH billions



* September – preliminary data from the MFU website, the data will be refined. NBU calculations based on the MFU’s data. Source: STSU, MFU, NBU staff calculations.

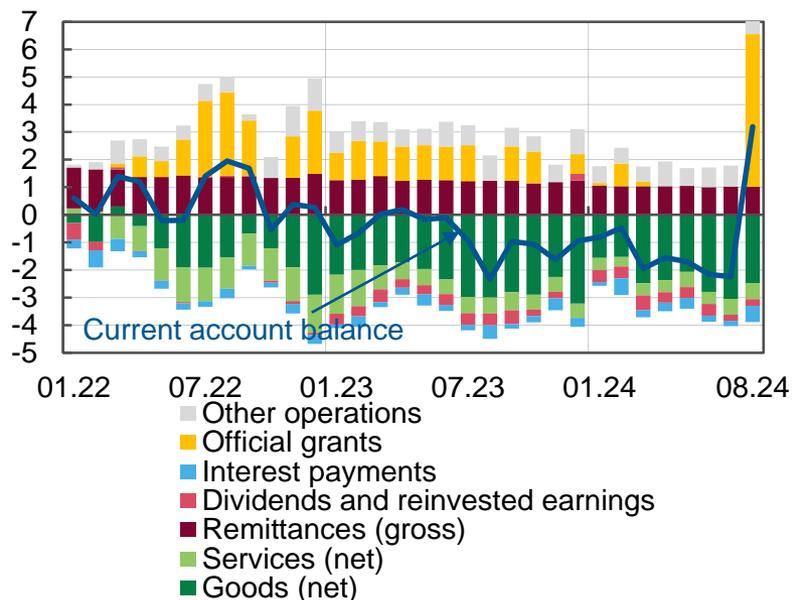
- In September, state budget expenditures remained close to their August level. However, in annual terms they decreased by over 20% on account of the special fund spending (which reflects, in particular, the targeted aid and its use). The general fund expenditures continued to grow at a moderate pace
- Defense and security, as well as social care, remained the priority spending areas (with the largest shares in the expenditure structure). Capital expenditures were substantial for much of this year, driven by military needs and efforts to eliminate the consequences of destruction. However, following a significant increase in August, capital expenditures in September are likely to be somewhat lower



Ukraine: Balance of Payments

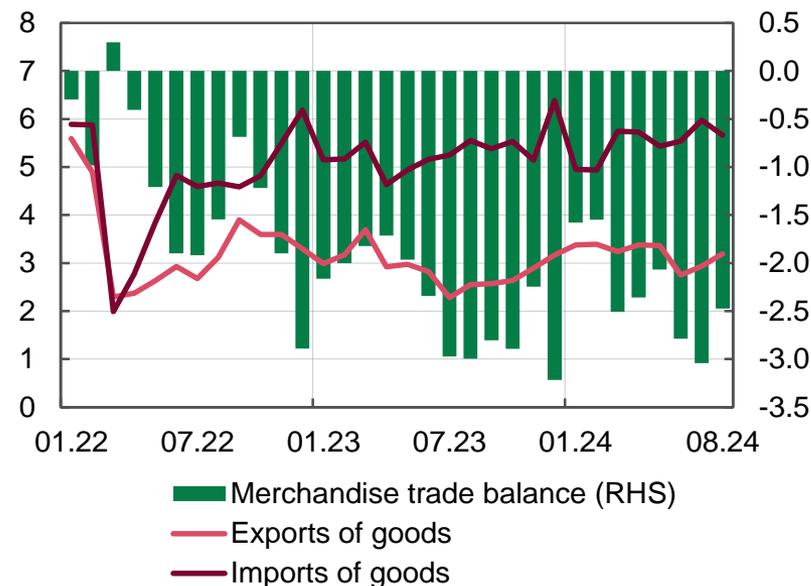
In August, the current account recorded a surplus due to high volumes of international assistance in the form of grants

Current account balance, USD billions



Source: NBU staff calculations.

Merchandise trade balance, USD billions

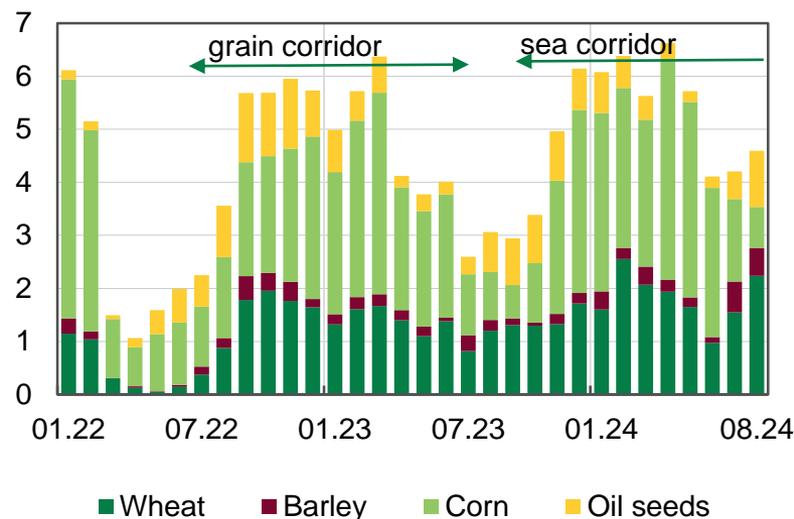


Source: NBU.

- In August, Ukraine received record amounts of grants from international partners. As a result, the secondary income account posted a surplus of USD 6.3 bn
- Additionally, the merchandise trade deficit narrowed somewhat due to reduced imports resulting from lower volumes of humanitarian aid and increased exports of goods driven by the supply of new agricultural crops

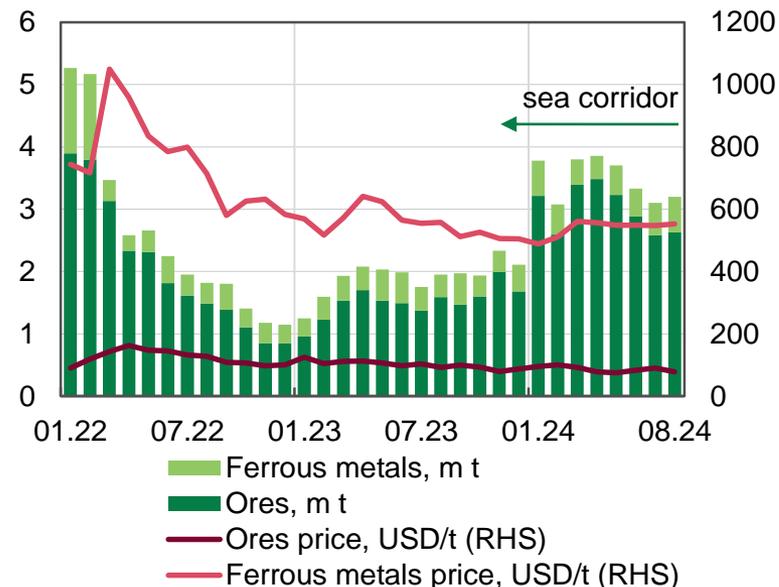
New harvest supplies continued to fuel the rise in exports

Exports of agricultural products, million tons



Source: SCSU.

Exports of metallurgical products and ores

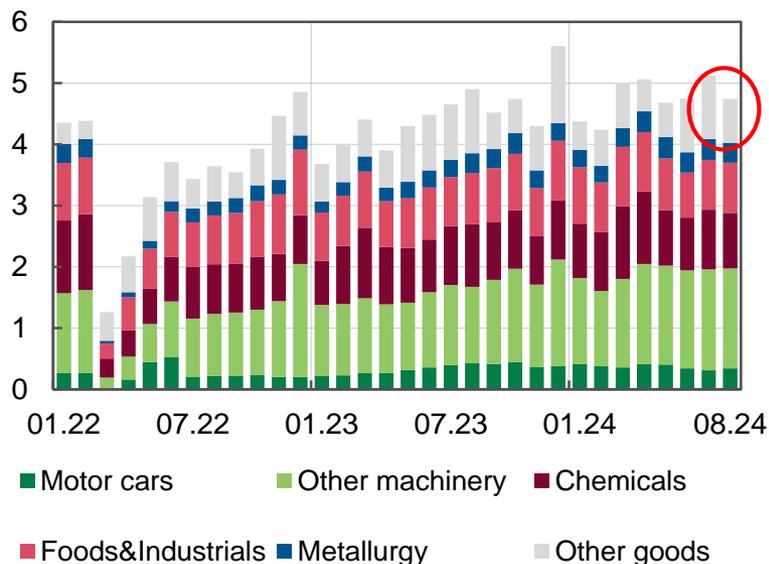


Source: SCSU, NBU staff calculations.

- With the supply of new agricultural crops and high external demand, exports of agricultural goods increased in August. However, exports of food products saw a more modest rise due to lower production volumes and, consequently, reduced exports of sunflower oil and oil-cake residues amid raw material shortages
- Supplies of mining and metallurgy products also increased. However, due to a prolonged decline in global prices for ores, the value of exports of these products decreased compared to July

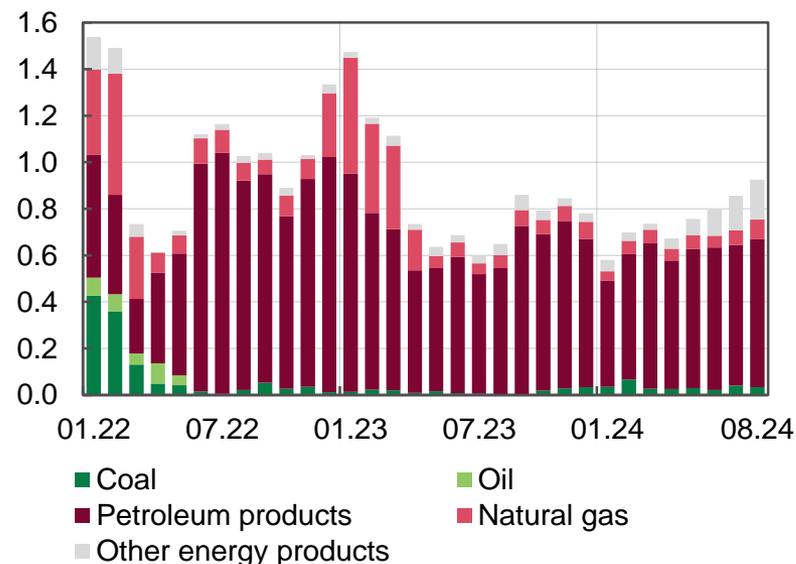
Imports of goods decreased, mainly due to lower volumes of humanitarian aid

Non-energy imports, USD billions



Source: NBU.

Energy imports, USD billions

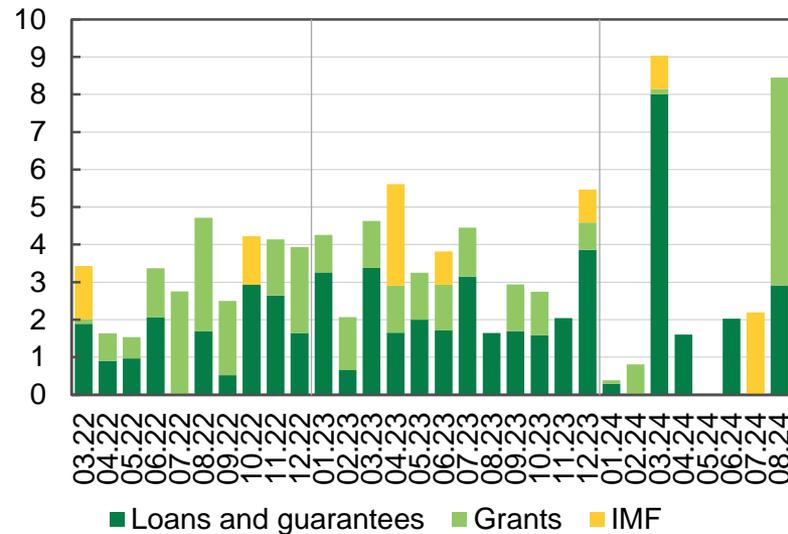


Source: NBU.

- High volumes of humanitarian aid in July were caused by Russia's energy terror, so the reduced inflows in August were in line with expectations. This decline affected the dynamics of the 'Other goods' category
- Additionally, seasonal demand from farmers for seeds and fertilizers weakened
- At the same time, improved consumer sentiment in August led to a slight increase in purchases of certain food products and industrial goods
- Moreover, ahead of the planned hike in excise tax rates, imports of oil products also rose

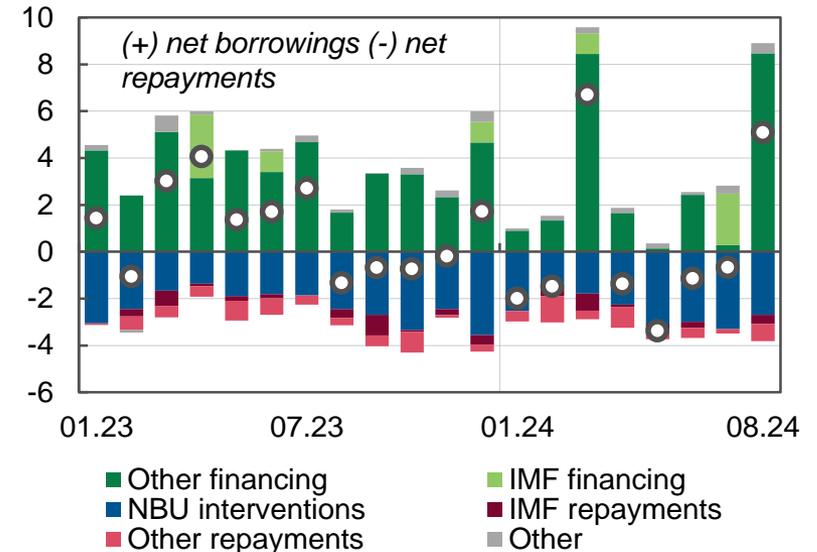
Substantial volumes of international financial aid led to growth in gross reserves in August

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



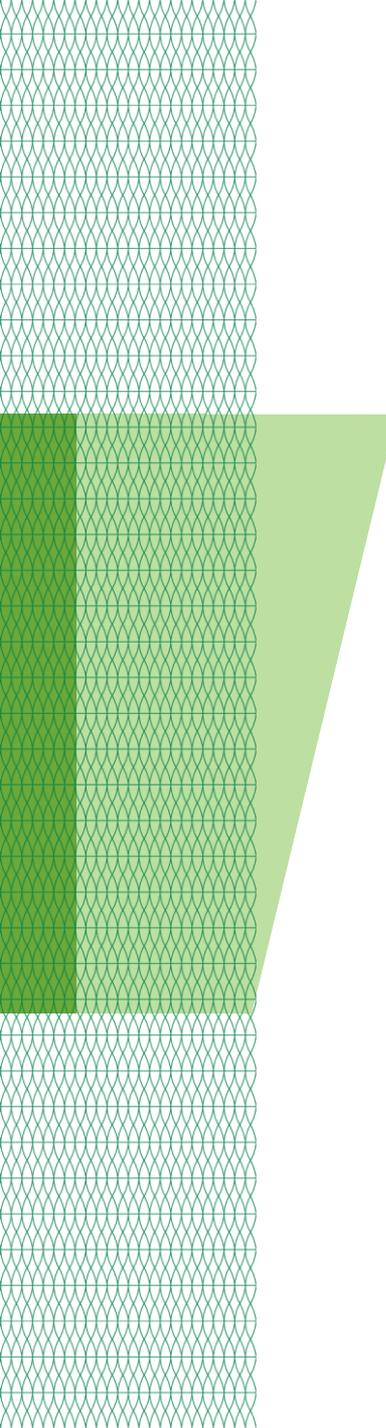
Source: NBU, MFU, open sources data.

Change in gross international reserves, USD billions



Source: NBU.

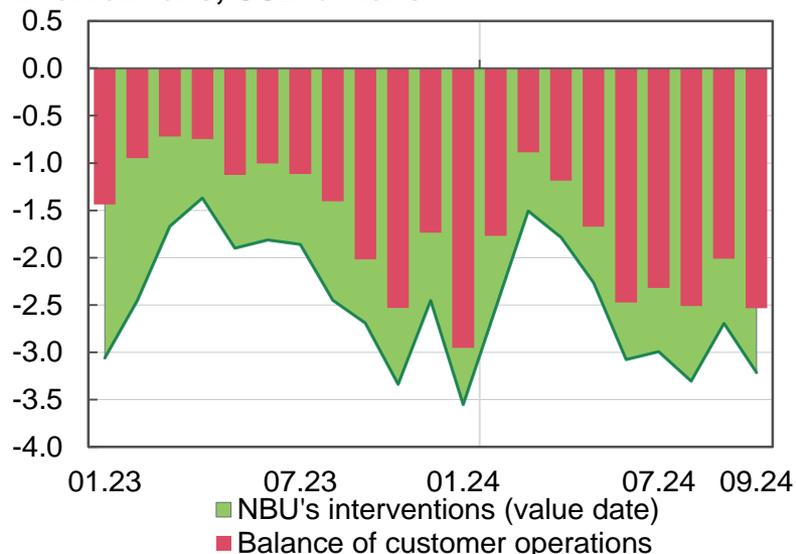
- In total, Ukraine received USD 8.4 bn in international financial aid in August. Receipts in the form of loans formed capital inflows in the public sector and, as a result, in the overall financial account
- Consequently, gross international reserves rose significantly, reaching USD 42.3 bn as of the end of August. This level covers 5.4 months of future imports



Ukraine: Monetary sector

In September, the hryvnia exchange rate fluctuated in both directions according to market conditions

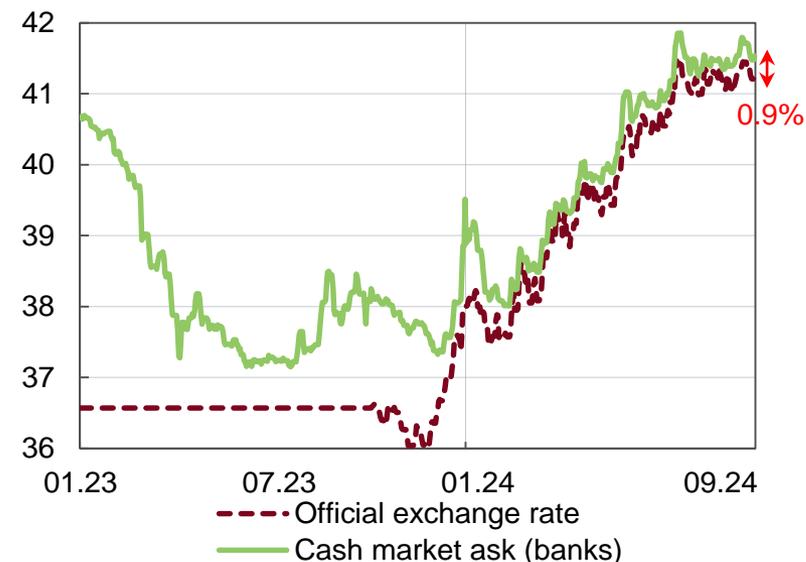
Bank clients' FX transactions* and NBU FX interventions, USD billions



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

Source: NBU.

Hryvnia exchange rates, UAH per USD

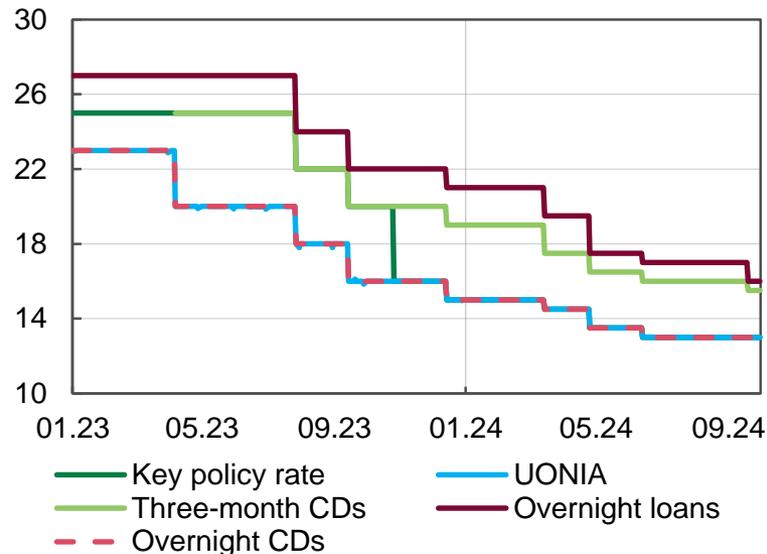


Source: NBU.

- In September, net demand for foreign currency rose in response to seasonal factors. In order to maintain a sustainable situation in the FX market and prevent excessive exchange rate fluctuations, the NBU increased its net FX sales to USD 3.2 billion and implemented additional measures to [prevent unproductive capital outflows](#)
- The hryvnia exchange rate fluctuated in both directions according to market conditions, but remained close to the August level. The spread between the cash and official exchange rates did not exceed 1.0% throughout the month
- Substantial amounts of international financial assistance in August further enhanced the NBU's capacity to maintain a sustainable situation in the FX market

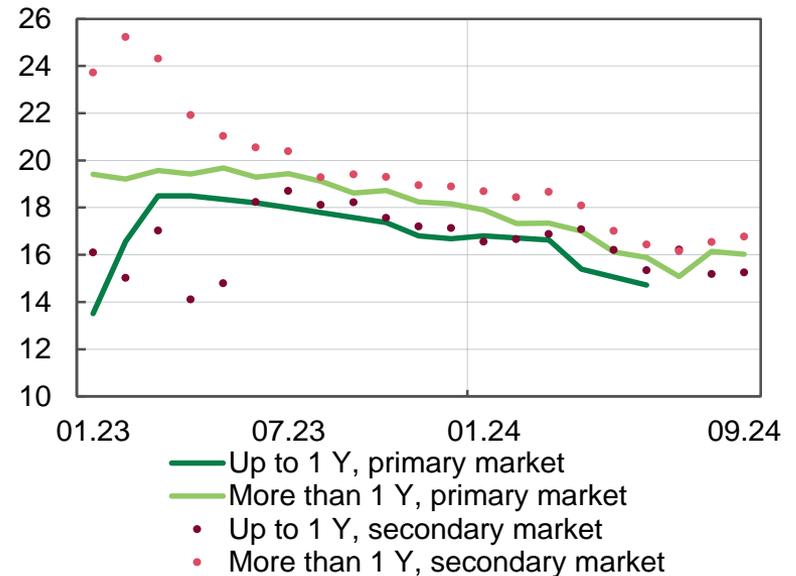
In September, the NBU kept the key policy rate at 13%

Interest rates on NBU open market operations and Ukrainian OverNight Index Average (UONIA), %



Source: NBU.

Yields on hryvnia domestic debt securities, % per annum

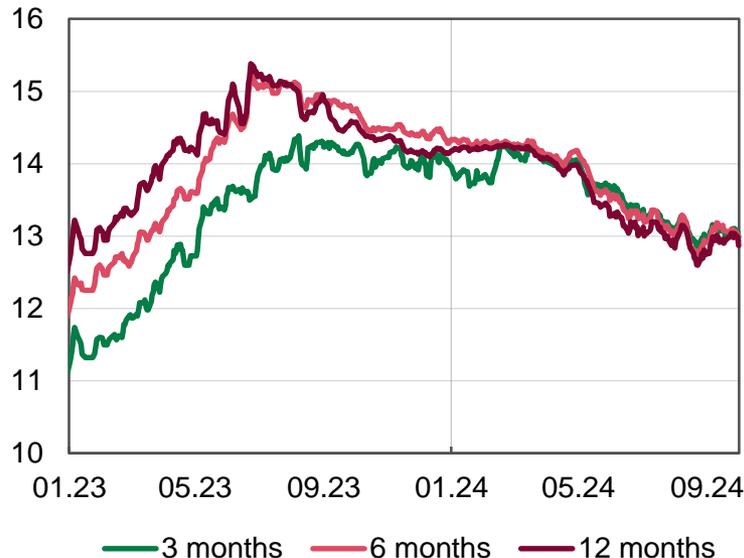


Source: NBU staff calculations.

- The September decision to keep the key policy rate at 13% is aimed at sustaining interest in hryvnia savings and curbing demand in the FX market
- The NBU also applied a combination of measures to enhance banks' flexibility in managing their liquidity and to boost demand for government debt securities, thereby strengthening the government's ability to secure enough funding in the domestic debt market and avoid monetary financing. Specifically, since October, the NBU has raised the mandatory reserve requirements while increasing the share of required reserves that banks can cover with benchmark domestic government debt securities
- The NBU also modified the parameters of the monetary policy framework: it reduced interest rates on three-month certificates of deposit to 15.5%, refinancing loans to 16%, and limited the maximum maturity of the latter to 14 days

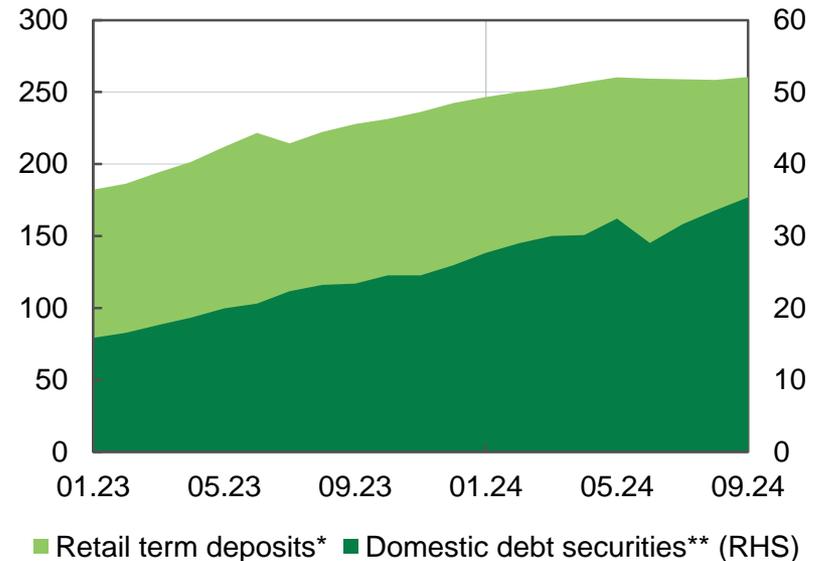
Current yields on hryvnia instruments support demand from retail investors

Ukrainian Index of Retail Deposit Rates*, %



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

Stock of hryvnia domestic debt securities held by individuals and retail term deposits, UAH billions



* Preliminary data. ** At outstanding nominal value.
Source: NBU.

- Nominal rates on hryvnia instruments have responded to rising inflation and the key policy rate remaining unchanged in recent months. According to preliminary estimates, the decline in interest rates on retail term deposits stopped in September. Yields on hryvnia-denominated debt securities in both primary and secondary markets even increased for certain maturities
- This helped support households' interest in hryvnia savings: term deposits resumed growth in September, and the portfolio of hryvnia domestic debt securities is expanding at a steady pace after a temporary decline in June