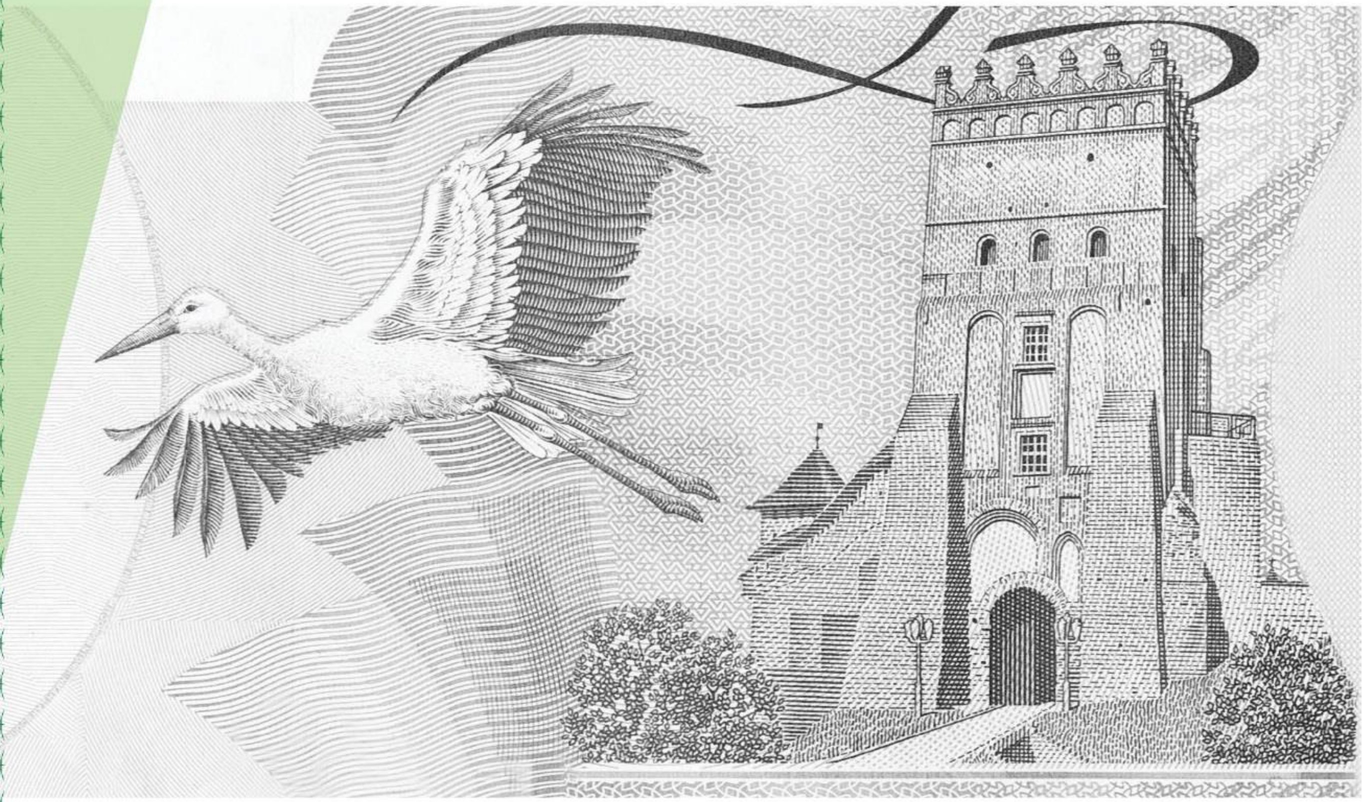
National Bank of Ukraine

Macroeconomic and Monetary Review

June 2019



SUMMARY

In May 2019, Ukrainian exporters saw improved global price conditions owing to increases in grain prices and high iron ore prices. Grain prices surged due to a severe deterioration in weather conditions in the United States in May and June, which caused a delay in the corn sowing campaign and adversely affected yield forecasts. Tight supply and rather strong demand from China buoyed up iron ore prices. Meanwhile, ample supply from the United States and the effects of the trade conflict between the United States and China on expectations of global economic slowdown, and, hence, lower demand for oil, pushed global oil prices down. Emerging markets benefitted from improved global financial conditions owing to the ECB's and Fed's signals about easing of their monetary policies. Meanwhile, the DXY index was virtually unchanged amid almost simultaneous dovish rhetoric of both the Fed and the ECB, while most emerging market currencies strengthened against the dollar.

In May 2019, consumer price inflation accelerated to 9.6% in annual terms, led by the prices of raw foods, which were in scarce supply. In addition, fuel prices also rose faster due to the difficulties in importing energy resources from Belarus and Russia. Meanwhile, core inflation held steady at 7.4% yoy, unchanged from the previous month. Producer price inflation accelerated to 8.5% yoy, driven mainly by faster price growth in the production of metal ores and in the supply of energy resources.

In January - May 2019, the IKSO index accelerated (to 1.9% yoy), driven by the faster growth in domestic trade, industrial sector and cargo transport. Thus, steady consumer demand amid a sharp improvement in consumer sentiment and robust wage growth supported acceleration in retail trade. Moreover, industrial output growth accelerated, primarily driven by the mining industry. Together with increased exports and higher gas transit volumes, this helped improve the performance in wholesale trade and transport. Construction continued to grow rapidly, despite a slight slowdown amid a slower growth in consolidated budget capital expenditures and the completion of large-scale repair works in selected businesses.

In May, the current account recorded a surplus of USD 0.2 billion, as the merchandise trade deficit narrowed and remittances rose further. Most notably, exports of goods accelerated, driven by renewed sunflower oil supplies, while corn exports maintained record levels. Meanwhile, import growth decelerated as expected following a temporary increase in oil-product imports in April. Unlike in earlier months, the financial account showed capital outflows of USD 1 billion due to the scheduled redemption of sovereign Eurobonds. The overall balance of payments deficit, together with repayments of IMF loans, caused gross international reserves to decrease to USD 19.4 billion as of the end of May – enough to cover 3.2 months of future imports.

In May, the state budget ran a surplus of UAH 9.4 billion, primarily driven by transfers of distributable profit from the NBU for the second consecutive month. However, the amount transferred in May was lower compared to April, which caused overall budget revenue growth to decelerate. In the meantime, tax receipts grew at a moderate pace, among other factors due to a slight deterioration in corporate financial results in Q1 2019. Expenditure growth was also modest. In May, local budgets also showed a surplus (UAH 6.9 billion).

In June, at its meeting on monetary policy issues, the NBU Board decided to leave the key policy rate unchanged at 17.5% per annum. The prospects for a return to a monetary policy easing cycle will be contingent on whether inflation risks materialize and inflation expectations improve. As in previous periods, the Ukrainian Index of Interbank Rates (UIIR) exhibited only minor fluctuations within the NBU's interest rate corridor, near its lower bound. Expectations of further key interest rate cuts and the maintenance of reasonably strong demand, including from non-residents, for hryvnia-denominated domestic government bonds were the main factors in bringing down the weighted-average yields of government hryvnia securities in June. Throughout June, the hryvnia has been gradually strengthening due to an ample supply of foreign currency on the FX market, while the NBU replenished its international reserves through currency interventions.

The Macroeconomic and Monetary Review is a translation of the original report in Ukrainian. If there are any discrepancies between the original document and its English translation, readers should consider the Ukrainian version of the report as correct.