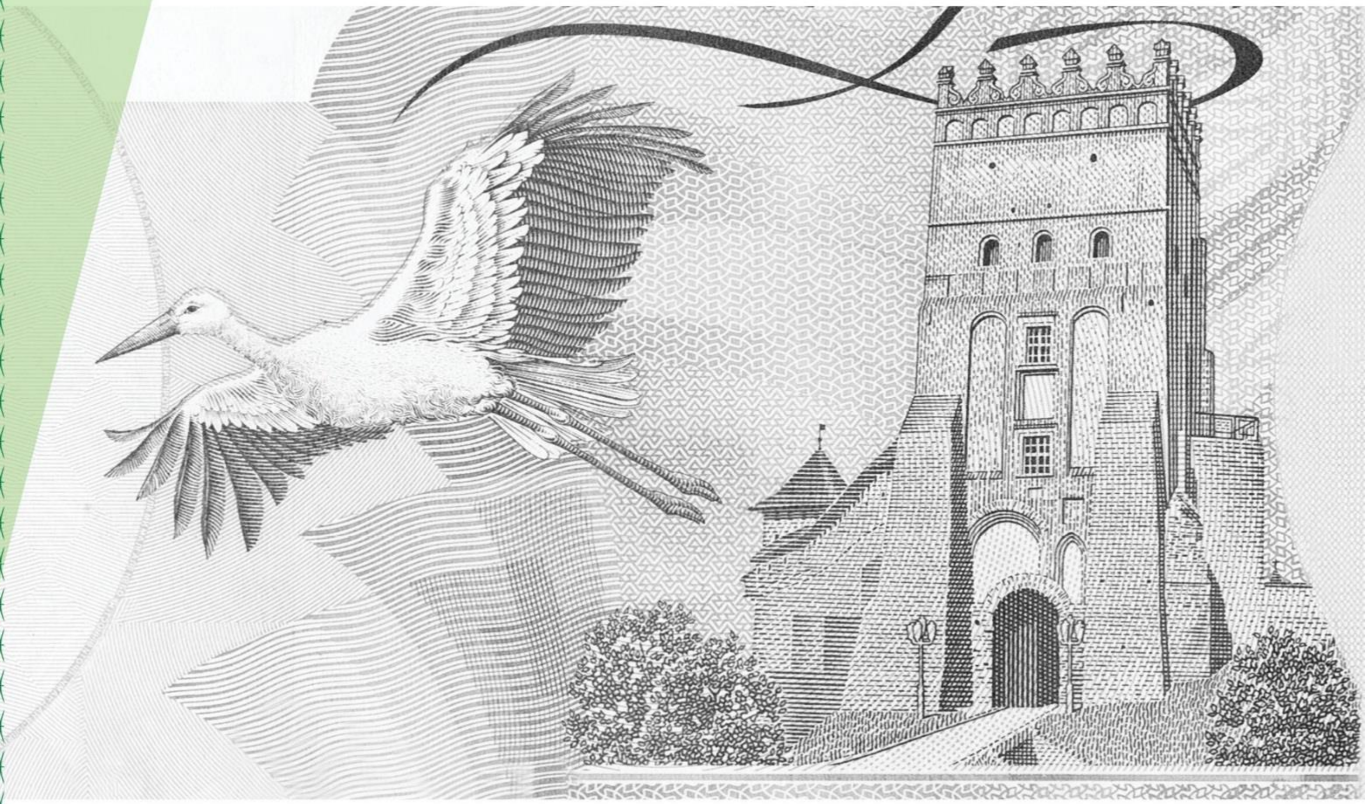
National Bank of Ukraine

Macroeconomic and Monetary Review

April 2018



Summary

● **In April, Ukrainian exporters faced a somewhat less favorable external environment than in the previous month; however, most commodity prices remained significantly higher compared to the previous year.** Prices were propelled by robust global economic activity and demand. However, geopolitical tensions and the threat of trade wars continued to pose material risks to global economy and trade. At the same time, these factors so far have affected primarily the financial markets, weighing on stock performance. Meanwhile, upside surprises in the U.S. economic data supported a rise in long-term bond yields and the US dollar strengthening against the basket of major currencies in late this month.

● **In March 2018, headline inflation in Ukraine slowed down** to 13.3% yoy with core inflation down to 9.4% yoy. Despite a slight slowdown, inflationary pressures remained high due to a robust increase in food prices, continued growth in production costs and a pick-up in consumer demand. These, among other things, were driven by solid increase in both nominal and real wages.

● **Growth acceleration in retail trade and passenger turnover signaled about buoyant consumer demand. Improved performance in these sectors also underpinned a slight pick-up in the Index of Key Sectors Output** (to 3.2% yoy). In addition, due to favorable base effects (related to the suspension of trade with the NGCA at this time last year, early warming up in March 2017) and frosty weather in March 2018, the mining and power industries reported strong increases in output production, while gas transit surged up. All these offset a decline in construction and freight turnover (excluding pipeline transport), likely prompted by the colder weather in March 2018, and a slowdown in industrial production. The latter was mainly driven by a decline in the food industry, metallurgy and machine building.

● **Meanwhile, the NBU's tight monetary policy helped contain the inflationary pressure, in particular via the exchange rate channel.** At its recent monetary policy meeting the NBU Board decided to leave the key policy rate unchanged at 17.0% pa. As before, interbank interest rates and government bond yields closely followed the key policy rate. Attractive yields spurred higher demand for hryvnia bonds in March, including from foreign investors. This, in turn, contributed to an increase in the financial account net inflows (to USD 0.7 billion). However, as the current account switched to a deficit (USD 0.8 bn) in March due the scheduled public debt service payments, the overall Balance of Payments also reported a small deficit. Together with the repayments of the IMF loan, this led to a decline in gross international reserves to USD 18.2 billion as of the end of March, or 3.3 months of future imports.

● Solid growth in economic activity, nominal and real wages, and the improved financial standing of the Ukrainian enterprises supported a rise in the state budget revenues. At the same time, their growth acceleration in March to a notable extent reflected a faded-out temporary negative effect related to the administration of corporate profit tax. In the meantime, proceeds from some other key taxes (VAT and excises) rose moderately. Moreover, the state budget expenditures in March grew at an even faster pace than revenues, mostly on account of social spending. As a result, **both the state and the consolidated budgets showed significant deficits (UAH 18.9 billion and UAH 18.3 billion respectively) in March.**

The Macroeconomic and Monetary Review is a translation of the original Report in Ukrainian. In case of any discrepancies between the original document and its English translation, readers should consider the Ukrainian version of the Report as correct.