



NATIONAL
BANK OF
UKRAINE

Macroeconomic and Monetary Review

May 2016



Monetary Policy and Economic Analysis Department

Summary

- **Price conditions for Ukrainian exporters continued to improve in April amid significant increase in world steel prices.** However, the strengthening of the US dollar against major currencies contributed to depreciation of emerging market currencies.
- **In April 2016, as expected, annual headline inflation slowed to single-digits, reaching 9.8%, down from 20.9% in March.** Actual inflation hit higher than projected, however, the end-year headline inflation target of 12% +/-3 p.p. for 2016 is still within reach. **Core inflation eased to 10.6% y-o-y, which was consistent with the NBU's projections. Producer inflation slowed (to 10.1% y-o-y)** mainly due to lower growth of prices in the "supply of electricity, gas, steam, and conditioned air" amid high base of comparison.
- **In April IKSO growth moderated to 3.8% y-o-y** mainly due to calendar and base effects. These effects had a noticeable impact on the industrial production growth, which slowed to 3.5% y-o-y. This, in turn, affected the wholesale trade and freight transportation performance. Also the growth of retail trade turnover somewhat moderated due to worsened consumer sentiments. However, the slowdown in these sectors was partly offset by significant growth of construction (by 17.2% y-o-y) due to the substantial increase in construction of roads and industrial facilities as well as a favorable base effect.
- The growth of nominal average wage slowed down to 22.4% y-o-y in April. However, thanks to ongoing disinflation, **the real wage growth accelerated to 7.6% y-o-y.**
- **In April, the growth of state budget revenues slowed down, primarily due to a significant decrease** (by 74.5% y-o-y) in non-tax receipts (last year funds from the sale of 3-G licenses and the National Bank profit transfers were important revenue sources). At the same time, expenditures continued to grow, although at a more moderate pace. This caused the state budget and the consolidated budget deficits to widen to UAH 11.6 billion and to UAH 8.9 billion, respectively.
- **Amid improving external conditions on commodity markets, in April the current account balance returned to surplus** as merchandise exports growth accelerated in seasonal adjusted terms. Meanwhile, non-energy imports declined due to weakening of the deferred demand effect. In addition, as domestic natural gas consumption was fully met by domestic gas extraction, the volume of gas imports notably declined. There was net inflow of USD 138 million on the financial account, mainly thanks to the private sector's borrowings. In contrast to previous periods, significant part of FDI (USD 147 million) was directed to the real sector. In addition, gradual hryvnia appreciation supported further reduction of FX cash outside banks. **Overall balance of payment surplus (USD 468 million) contributed to the increase in international reserves up to USD 13.2 billion (or 3.4 months of future imports) as of 30.04.2016.**
- **FX market remained stable on the back of growing FX supply.** This was evident from a narrow range of the hryvnia exchange rate fluctuations with respect to US dollar in May and continuing, according to April's data, increase in the stock of FX deposits (in US dollar terms). The stock of deposits in national currency also kept on recovering. Instead, the credit activity of banks remained weak. Due to a further reduction of risks to price stability and in order to support the economic recovery, the National Bank continued to ease its monetary policy. On May 27, 2016 the key policy rate was reduced to 18%.

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