



NATIONAL
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Macroeconomic and Monetary Review

May 2017



Monetary Policy and Economic Analysis Department

Summary

- During May prices in global commodity markets predominantly trended higher despite increased volatility in the course of the month. Thus, steel prices rose amid a reduction in supply from China, despite lower iron ore prices. Maize prices remained virtually unchanged, while wheat prices slightly rose. Following a steep decline oil prices adjusted upwards after the extension of the OPEC+ agreement until March 2018. Investors maintained their risk appetite as conditions in global financial markets improved. Most emerging market currencies strengthened against the US Dollar as the latter weakened on the trade-weighted basis amid U.S. political turbulence.
- In April 2017, headline inflation slowed in annual terms to 12.2% yoy. This was expected, primarily reflecting the waning statistical base effect. In particular, natural gas tariffs surged in April 2016, which affected this year's comparison base. Core inflation remained flat due to further improvement in inflation expectations amid strengthening of the hryvnia to US dollar. At the same time, raw food prices accelerated. Producer price inflation decelerated to 35.6% yoy, reflecting mainly global commodity price developments.
- The halted freight traffic across the contact line in Donbas and the seizure of enterprises in the uncontrolled territories continued to adversely affect the real sector of the economy. Index of Key Sectors Output fell by 1.5% yoy in April. The decline in industrial production deepened to 6.1% yoy primarily due to a further drop in the mining and metallurgical industry. In addition, the wholesale trade turnover fell by 2.4% yoy with growth in rail transportation slowing to almost zero. Retail trade turnover maintained a robust growth (6.1% yoy), indicating a gradual recovery in consumer demand. Growth in construction moderated (to 7.4% yoy) reflecting an increase in previous year's comparison base.
- The growth of demand for labor force slowed down in April due to the weakening of economic activity. However, the number of staff members continued to decline in annual terms despite a significant increase in job vacancies compared with the previous year. The average nominal and real wages continued to grow rapidly (36% y-o-y and 20.7% y-o-y respectively), reflecting a rise in the minimum wage since the beginning of the year.
- In April the state budget recorded a sizeable surplus – UAH 29.2 billion. A nearly two-fold rise in revenues resulted primarily from transfers of a part of NBU's profit for the previous year to the budget and forfeit funds. The continued slowdown in expenditure growth was another factor contributing to this surplus. Local budgets also reported a positive balance (UAH 5.4 billion). Accordingly, the consolidated budget showed a significant surplus – UAH 34.6 billion.
- The current account showed a deficit of USD 146 million, while in April last year the balance was positive at USD 164 million. The current account deficit was driven by a widening trade deficit and payment of dividends. Net financial account inflows grew significantly (up to USD 1.1 billion) owing to the public sector disbursements (a EUR 0.6 billion macro-financial assistance loan from the European Commission). FDI inflows have been modest over the past six months. Due to the overall BoP surplus (USD 1.0 billion) and a disbursement of the fourth IMF tranche under the EFF program, gross international reserves increased to USD 17.2 billion as of the end of April, or 3.6 months of future imports.
- Following its policy meeting the NBU Board decided to cut the key policy rate by 0.5 pp to 12.5%, effective from 26 May 2017. The decision to ease monetary policy is consistent with the pursuit of inflation targets set for 2017-2018 and will help propel the economic growth in Ukraine. Interbank market rates continued to decrease in May. Continued attractiveness of bank deposit products amid further strengthening of the hryvnia significantly contributed to accelerating hryvnia deposit inflows into the banking system in April. However, lending activity remained weak.

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.