



NATIONAL
BANK OF
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Macroeconomic and Monetary Review

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Monetary Policy and Economic Analysis Department

Summary

- Following a steep upward trend in the global commodity prices since mid-March, prices lost some of their previous gains over the last few months. In particular, the global price developments were unfavorable for Ukrainian exporters of grains, sunflower oil, and fertilizers. At the same time, iron ore prices continued to increase, and steel prices saw some improvement since mid-July. In August, global financial market conditions also remained rather favorable for emerging market countries given expansionary policies of leading central banks and low market volatility.
- In July, headline inflation accelerated to 7.9% y-o-y, and core inflation eased to 7.9% y-o-y. Such inflation readings were anticipated and in line with the NBU's forecast as published in the Inflation Report (July 2016) that projects headline inflation to return to 12% by the end of 2016. Rising administered prices and tariffs and higher fuel prices contributed to the acceleration of inflation. Producer price inflation also sped up to 18.3% y-o-y, primarily driven by higher prices in the supply of electricity, gas, steam, and conditioned air.
- In July, IKSO grew by 1.7% y-o-y, with the paces of growth remaining flat for the third consecutive month. Meanwhile, performance diverged across sectors. A decline in industrial production slowed to almost zero. There was a pickup in activity within metallurgical and mining sectors, but they continued facing transportation difficulties. Passenger turnover and construction growth accelerated. Agriculture reported decent growth, underpinned by high crop production. However, domestic trade and freight transportation performance has worsened.
- Labor demand has been gradually strengthening but remains rather unstable. In July, nominal average and real wages continued to increase fast (up by 22.4% y-o-y and 14.8% y-o-y, respectively).
- In July, resumption of VAT refund was the primary cause of a decrease in net proceeds from this tax. This led to a reduction in tax revenues and State budget revenues as a whole. As a result, the State budget deficit widened to UAH 14.9 billion, despite lower expenditures, mainly on account of non-socially sensitive programs. At the same time, social protection expenditures continued to increase. Although the local budgets' surplus widened to UAH 3.3 billion, the consolidated budget recorded a deficit.
- In July, the current account switched to a deficit (USD 354 million), mainly due to the widening of merchandise trade deficit. Energy imports rebounded amid resumption of natural gas supplies in late July, and the seasonal increase in imports of oil products. Exports of goods have not changed compared with June: the worsening of the global price environment for grain exports was offset by an increase of ferrous metals exports after railway operations in the East of Ukraine resumed. The financial account recorded a net inflow (USD 447 million), underpinned by a reduction of FX cash outside banks. The overall balance of payments surplus (USD 110 million) allowed for increasing international reserves to USD 14.1 billion as of the end of July (or 3.6 months of future imports).
- Following five months of appreciation pressures, volatility of the hryvnia exchange rate increased in August, particularly on cash FX market. The heightening of depreciation pressures was related to intensified tensions with Russia over Crimea and increased fighting in eastern Ukraine, as well as seasonal strengthening of demand for FX cash. In addition, a further delay with official financing has adversely affected market sentiment. The money market saw a continued growth in the volume of domestic currency deposits, while banks' lending activity remained weak. Cohesive easing of NBU's monetary policy helped to reduce market interest rates.

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 translation to English, readers should consider the Ukrainian version of the Report as correct.