Macroeconomic and Monetary Review

NATIONAL BANK OF UKRAINE

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Monetary Policy and Economic Analysis Department

Summary

● Global price conditions (as expressed by the index of changes in global prices for Ukrainian export commodities) continued to improve in September 2017 owing to the ongoing strength in steel prices (amid heightened demand) and a recovery in grain prices (due to unfavorable weather conditions). Oil prices rose on the back of a gradual demand recovery in U.S. and rising expectations regarding the extension of the OPEC+ agreement. Conditions in global financial markets improved as global growth accelerated, global commodity prices rose and optimism prevailed regarding the ECB and Federal Reserve monetary policy. Investors maintained risk appetite, although turning slightly more risk averse by the end of the month. This, along with some correction of the US dollar after a prolonged depreciation, caused most EM currencies to depreciate against the US dollar.

● August 2017 saw a 0.1% deflation in monthly terms (in contrast to a 0.2% rise in consumer prices in July) due to a seasonal decline in prices for fruit and vegetables as well as clothing and footwear. Annual headline inflation stood at 16.2%. Underlying price pressures remained moderate, although core inflation accelerated slightly – the core CPI rose 0.2% mom and 7.8% yoy. The producer price index accelerated slightly (to 23.6% yoy), driven by global commodity price developments.

● In August, the Index of Key Sectors Output accelerated to 4.4% yoy. Almost all key sectors showed improved performance. In particular, industrial production rose amid improvements in the mining, metallurgy and energy supply industries, and on the back of acceleration in output growth in the manufacturing of foods, chemicals and machine-building products. Substantial growth in the machine building and construction suggests investment growth remained strong, while the acceleration in retail turnover points to the ongoing revival of consumer demand. The growth of the agricultural production index resumed as the paces of harvesting of early grain crops caught up in August and, simultaneously, harvesting of fall crops was started earlier.

● Labor demand continued to grow in the course of 2017, although in August employers' hiring needs slowed. Average nominal wages kept growing at a fast pace in August 2017 (36.8% yoy). Also, growth rates of real wages stayed high (17.2% yoy).

● The consolidated budget recorded a significant surplus (UAH 15.8 billion in August and UAH 68.6 billion for January-August 2017), reflecting strong growth in revenues. Economic factors (improved financial performance of enterprises, rising household incomes, a pick-up in consumer demand) were the main contributors to revenue growth (on both a monthly and a cumulative basis). By contrast, expenditures grew at a more moderate pace, but accelerated markedly in August due to higher social spending.

● In August, the current account deficit narrowed (to USD 0.2 billion) owing to the growth acceleration in goods exports (primarily, on account of exports of foods and steel products), the expansion in service exports and robust remittance growth. Imports growth, on the other hand, decelerated as a low base effect for natural gas supplies in the past months has vanished and growth of machinery imports moderated. As in the previous months, net financial account inflows (USD 0.7 billion) were mainly generated by the private sector. The reduction in the net real sector inflows (due to lower long-term and trade borrowings) was offset by an increase in the net external liabilities of the banking sector. FDI increased to USD 195 million and were predominantly directed to the real sector. Owing to overall BoP surplus (USD 0.5 billion) international reserves grew to USD 18.0 billion as of the end of August, or 3.6 months of future imports.

● At its last monetary policy meeting the NBU Board decided to maintain the key policy rate unchanged at 12.5% pa. The decision was prompted by the need to return inflation to the target path while mitigating demand-driven inflationary pressures stemming, in particular, from the expected increase in budget expenditures and pension payments in the months ahead. With the key policy rate kept unchanged in recent months, the decline in market interest rates for hryvnia resources has somewhat slowed down. However, that has not halted the growth of the banks' domestic currency loan portfolio. To enhance the efficiency of its monetary policy, the NBU ceased the daily practice of holding 14-day CD placement. Instead, 14-day CD placement tenders will be held twice a week. Also, the NBU resumed the placement of three-month CDs.

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