



**NATIONAL
BANK
OF UKRAINE**

Macroeconomic and Monetary Review

November 2015

Monetary Policy and Economic Analysis Department

Summary

- **In October-November 2015, global prices for key Ukrainian export commodities (i.e., steel and grains) showed divergent trends: steel prices kept declining, while grain prices were slowly growing. Global oil prices were rather volatile and continued to face downward pressures. Substantial differences in the strength of recovery remained across major developed economies:** growth momentum in the United States has slowed, while economic activity in the Euro Area has been firming. In China, data indicated an ongoing gradual deceleration in the economy. Sanctions and weak foreign and investment demand continued to weigh on the Russian economy, albeit the decline in real GDP somewhat lost its pace.
- **In October 2015, headline inflation moderated to 46.4% yoy, while in monthly terms there was a 1.3% deflation.** The slowdown in annual CPI growth was primarily attributed to a decline in natural gas prices due to a reflection in CPI growth of natural gas price discount for population, effective during a winter season, lower world commodity prices, subdued consumer demand and tight fiscal policy. **Core CPI growth slowed down to 40.1% yoy (0.8% mom) in October amid growing base effect. Producer price inflation eased to 30.2% yoy.**
- **The decrease in the Index of Key Sectors Output slowed to 3.6% yoy** (down from 7.4% yoy in September). **After falling in August-September, agricultural production resumed growth in October,** expanding by 0.5% yoy. The growth was supported by high sunflower yields, larger harvest of fruits and berries. Also the numbers reflected a shift in timing of the harvesting works for some crops from September to October this year compared with the previous one. **The decline in wholesale trade turnover and construction works eased to 6.7% yoy and 12.2% yoy respectively. Industrial production reported modest improvement in October** (output fell by 5.0% yoy) as a moderation in the paces of decrease in food processing and chemical industry was offset by a slower growth in the mining industry.
- **The fall in real wages softened noticeably to 12.7% yoy** amid easing inflationary pressures and some acceleration in nominal wage growth. Rising utility costs and simplification of eligibility criteria led to a significant increase in the number of households that applied for subsidies and in the amount of allocated subsidies.
- **The state budget switched into a deficit (UAH 6 billion),** mainly as a result of lower non-tax revenues (including due to a scheduled decrease in the NBU monthly profit transfers to the budget) and an anticipated increase in expenditures compared to the previous month. Higher expenditures, in particular driven by an increase in the minimum wage and pension (effective since September 2015), caused **local budgets' surplus to narrow to UAH 0.3 billion.** At the same time, although the consolidated budget reported a deficit in October, **the accumulated ten-month surplus remained considerable (UAH 26.8 billion).**
- **The current account also turned to a deficit owing to worsening foreign trade balance. Exports decreased by 6.6% mom in seasonally adjusted terms,** adversely affected by further decrease in world commodity prices. **Instead, imports gained some momentum, expanding by a seasonally adjusted 11% mom,** mainly on account of higher energy imports. **Net inflows of USD 549 million were recorded in the financial account,** mainly thanks to official financing and a decrease in foreign cash holding outside banks. **Overall, balance of payments remained in surplus (USD 229 million), which allowed replenishing gross international reserves up to USD 13.0 billion (as of the end of October 2015),** sufficient to cover 3.1 months of future imports.
- **Growing uncertainty among economic agents in the run up to local elections, a further decline in prices for key Ukrainian export commodities, a seasonal increase in demand for foreign exchange due to higher energy imports, and currency devaluation in select trading partners of Ukraine in the previous months generated devaluation pressures on hryvnia at the end of October and November.** Under these conditions, the National Bank took measures to smooth excessive volatility on the foreign exchange market, remaining committed to a floating exchange rate regime. In October, hryvnia deposits kept increasing in monthly terms. October's data for domestic currency loans suggest that signs of a slow recovery in bank lending activity have been firming.

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, the Ukrainian version of the Report should prevail.