NATIONAL
BANK
OF UKRAINE

# Macroeconomic and Monetary Review

***December 2015***

**Monetary Policy and Economic Analysis Department**

## Summary

● **Growing monetary policy divergence between the ECB and the Fed had a major effect both on commodity market and global financial market developments in November-December.** Oil prices continued to fall while showing high volatility. At the beginning of December, oil prices tumbled below USD 40 a barrel for the first time since February 2009. Following a temporary stabilization in October, global steel prices continued to decrease in November-December 2015. The average FAO Food Price Index declined by 1.6% m-o-m in November. November's economic activity data for China revealed that authorities' stimulus measures and renminbi devaluation may have started to bear the first fruit. Amid the ongoing decline in oil prices, the Russian ruble continued to depreciate in November-December.

● **In November, headline consumer inflation remained virtually flat at 46.6% y-o-y. In monthly terms, it slightly accelerated (to 2%), which was generally in line with NBU expectations.** As anticipated, non-core inflation sped up (to 54.1% y-o-y), mainly driven by a further increase in raw food prices. However, its impact on overall CPI growth was offset by a slowdown in core inflation (to 37.9% y-o-y). **Producer price inflation has been on a descending trend for the eighth consecutive month (PPI growth moderated to 25.1% y-o-y).**

● **The pace of contraction of the Index of Key Sectors Output somewhat increased in November (to 9% y-o-y)** reflecting a deeper decline in agricultural production (by 11.1% y-o-y). Domestic trade performance also weakened (wholesale and retail trade turnover indicators were down by 11.9% y-o-y and 19.7% y-o-y, respectively). The annual rates of decline (at about 5%) in industrial production hardly changed for three months in a row. Activity patterns in various sectors of the Ukrainian economy supported NBU view of an uneven path of economic recovery, dampened by weak consumer demand.

● **The decline in real wages accelerated slightly to 14% y-o-y in November 2015,** reflecting slower growth in nominal wages. The number of households that applied for subsidies and the amount of allocated subsidies continued to increase (almost a quarter of all households has been receiving subsidies as of 1 December 2015).

● Also as expected, the growth of budget expenditures (both state and local ones) gained momentum in November. Nevertheless, as budget revenue growth accelerated too, **the state budget reported just a slightly wider deficit (UAH 7.1 billion)** compared to the previous month, and the **local budget balances taken together remained positive (UAH 0.3 billion).** A pick-up in budget revenue growth was attributed to some improvement in economic performance in Q3 2015 and enhancement of tax administration. **The consolidated budget deficit amounted to UAH 6.8 billion in** November. **On a cumulative basis,** the consolidated budget continued to run **a sizable surplus (c. UAH 20 billion),** which contrasted sharply compared with a UAH 53.1 billion deficit reported for January-November 2014.

● **The current account deficit narrowed to USD 114 million. Exports of goods declined by 2.5% m-o-m in seasonally adjusted terms** due to the ongoing fall in prices for Ukraine's main exporting commodities. But owing to a favorable base of comparison, in annual terms the decrease in exports moderated to 22.3%. In contrast, **the decline in merchandise imports accelerated to 22.7% y-o-y** primarily on account of lower energy imports. **In the financial account, net inflows amounted to USD 442 million** due to a decrease in currency outside banks and net inflows from transactions with currency swaps. **Overall, the Balance of Payments surplus rose to USD 339 million, causing a rise in gross international reserves to USD 13.1 billion as of the end of November,** or 3.2 months of future imports.

● A seasonal increase in energy imports, depreciation of local currencies of select trading partners of Ukraine, and growing uncertainty amid a delay with the 2016 budget approval, key for unblocking financial assistance funds, contributed to **enhanced FX market volatility during November-December. Given potential risks to price stability, on 17 December 2015, the NBU Board decided to leave its key policy rate unchanged at 22% per annum. The inflow of hryvnia deposits to the banking sector kept on recovering in monthly terms alongside tentative signs of bank lending activity reviving.**


*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.*