NATIONAL
BANK OF
UKRAINE

# Macroeconomic and Monetary Review

**December 2017**

**Monetary Policy and Economic Analysis Department**

## Summary

● In December 2017, the external environment for Ukraine's major export commodities improved as prices for steel, iron ore and grains rose. Steel prices showed an upward trend amid limited supply volumes from China. Wheat prices rose while corn prices held relatively steady for a third consecutive month. Oil prices traded in a narrow range following the OPEC+ agreement to extend oil cuts and amid increased drilling activity in the United States. Assets in emerging markets remained attractive to investors, although their interest lessened amid shifting focus toward assets in developed market.

● In November, consumer inflation predictably decelerated to 13.6% as administered prices and tariffs and raw food prices rose at a slower rate. However, actual inflation came in above the forecast path published in the Inflation Report (October 2017) due to a faster pace of increase in food prices. Core inflation in November ran at 8.6% yoy. Producer prices continued to decline, down to 18.4% yoy.

● In November, the Index of Key Sectors Output slightly increased (0.5% yoy), supported by acceleration in retail trade turnover growth (to 6.8% yoy) thanks to rising household incomes and a continued robust growth in construction (10.7% yoy). Industrial production grew by 0.3% yoy, largely driven by growth in chemical production and pharmaceuticals as well as improvements in the electricity production and mining industry. This offset the decline in food industry output caused by falling sunflower oil production due to lower sunflower harvest. The latter also contributed to the deepening of the decline in agriculture (to 13% yoy).

● In November 2017, labor demand continued to worsen due to seasonal fluctuations. However, seasonally adjusted labor market indicators pointed to a stabilization at a high level. Meanwhile, average nominal wages continued to grow at a fast pace (38.3% yoy in November). This, coupled with easing inflation pressures, caused real wage growth to accelerate (to 21.4% yoy).

● In November, as expected, the state budget recorded a surplus of UAH 4.1 billion. The positive balance resulted from a marked increase in revenues compared to October, reflecting quarterly tax payments, and a decline in expenditures (primarily, due to lower spending on domestic debt servicing). Meanwhile, the balance of local budgets turned negative. As a result, the consolidated budget showed a moderate surplus of UAH 2.7 billion, while the cumulative surplus reached UAH 33.9 billion.

● In November, the BoP current account was nearly balanced (in contrast to a deficit in October) as merchandise trade deficit shrank and remittances rose further. Year on year, export growth remained robust owing to a sharp rise in exports of metallurgy and machinery products offsetting the decline in food exports. Meanwhile, import growth slowed primarily due to a decline in imports of machinery products. Net financial account inflows remained steady at USD 0.5 billion, the same level as in the previous month, and were mainly generated by the banking sector. The FX cash outside banks increased by USD 93 million, reflecting the increase in remittances. FDI inflows rose to USD 169 million, however, 60% of these were the result of debt-to-equity operations in the banking sector. Thanks to the overall BoP surplus (USD 0.5 billion), gross international reserves increased to USD 18.9 billion (or 3.7 months of future imports) as of the end of November.

● At its last monetary policy meeting the NBU Board decided to raise the key policy rate by 1 pp to 14.5% pa, effective from 15 December 2017. The decision to tighten monetary policy was mainly prompted by the need to bring inflation closer to target levels in 2018. The tighter monetary policy will help prevent inflation expectations from deteriorating further. Market interest rates for hryvnia resources, primarily interbank interest rates and government bond yields, responded swiftly to the rise in key policy rate. In the meantime, banks' hryvnia deposit and loan portfolios kept growing.


*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.*