



NATIONAL
BANK OF
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Macroeconomic and Monetary Review

April 2016



Monetary Policy and Economic Analysis Department

Summary

- **Price conditions on global commodity markets for Ukrainian exporters continued to improve in April.** Thus, steel prices increased by 31% m-o-m on average amid rising oil prices and under the influence of China's stimulus measures in the construction sector, further reduction of global steel production and the imposition of anti-dumping duties by the US and the EU on some steel imports from certain countries. The prevalence of the positive sentiment in commodity markets supported the currencies of commodity-oriented countries.
- **In March, headline inflation slowed to 20.9% y-o-y** (stood at 1.0% m-o-m) mainly due to a sharp deceleration of raw food inflation resulting from increased supply of such goods. Although actual inflation came in below the NBU forecast, inflation projection remained unchanged and consistent with the target (12% y-o-y) by the end of 2016, resting on the NBU view that most supply side factors are short-lived. **As forecast, core CPI growth slowed down to 15.0% y-o-y in March.** Producer inflation eased to 10.5% y-o-y, despite rising prices on global commodity markets.
- **In March, the IKSO¹ growth accelerated to 5.0% y-o-y.** For the first time over the last two years, the domestic trade turnover reported growth in y-o-y terms amid recovering private consumption and foreign trade gaining momentum, partly thanks to the restoration of Ukrainian goods transit through the territory of the Russian Federation. **Following a notable acceleration in February, industrial production growth slightly decelerated (to 4.2% y-o-y)** mainly on account of weakening performance in electricity, gas, steam and conditioned air production. Such weakening was partly offset by the growth acceleration in metallurgy (to 19.1% y-o-y), supported by strengthening domestic demand amid a gradual recovery in machine building and construction.
- Since the beginning of 2016, available labor market indicators have been broadly confirming signs of restoring demand for labor. **Nominal average wage growth leveled off at 26.2% y-o-y in February. A decline of real wages slowed down to 8.3% y-o-y due to weakening inflationary pressure.** Following the end of the heating season, the number of households who have applied and received subsidies to pay utility services has declined.
- In March, tax changes and a continued recovery in economic activity supported high paces of growth in tax revenues. At the same time, as expected, the state budget revenues slowed down, reflecting high base of comparison. Nevertheless, expenditures rose sharply, particularly on social programs and public debt service. As a result, **the state budget deficit widened to UAH 8.2 billion.** In addition, the surplus of local budgets narrowed to UAH 2.2 billion. Thus, **the consolidated budget reported a deficit of UAH 6.0 billion.**
- **The current account deficit widened to USD 448 million** due to a significant increase in the deficit on primary income. At the same time, the merchandise trade balance improved thanks to rebounding exports and shrinking energy imports. The financial account recorded net capital outflows (USD 415 million). As a result, overall balance of payments deficit increased to USD 859 million, which led to a **reduction of international reserves to USD 12.7 billion** (or 3.3 months of future imports) as of 31.03.2016.
- In April 2016, on the FX market hryvnia continued to follow an appreciation trend on the back of growing FX supply and weakening demand. **Further alleviation of risks to price stability amid improving external conditions and easing political tensions allowed the NBU to ease its monetary policy.** To this end, in April 2016 the National Bank reduced its key policy rate to 19% (from 22%) and improved operational design of monetary policy.

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.

¹ Index of Key Sectors Output is calculated by the NBU based on output data in agriculture, industry, construction, domestic trade, and transport (for greater details see <http://www.bank.gov.ua/doccatalog/document?id=28142206>).