



**NATIONAL  
BANK OF  
UKRAINE**

# **Macroeconomic and Monetary Review**

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**July 2016**



**Monetary Policy and Economic Analysis Department**

## Summary

- **As expected, in June 2016 external conditions for Ukrainian exporters worsened** due to a substantial decline in export prices for select Ukrainian steel products and global prices for iron ore that outweighed overall supportive grain prices. Meanwhile, in July, global grain prices decreased, driven by a seasonal increase in supply. Oil prices declined substantially too due to a further increase in oil supply amid weak demand. Steel prices demonstrated diverse trends on different markets.
- **In June 2016, headline consumer inflation slowed down to 6.9% y-o-y, and core inflation eased to 8.3% y-o-y.** The deceleration slightly outpaced the projected disinflation path as published by the NBU in the Inflation Report (April 2016). Further weakening of inflation pressure mainly reflected the impact of supply-side factors on raw food prices, strengthening of the hryvnia exchange rate and subdued consumer demand. Also, **producer price inflation returned to a descending trend (moderating to 15.7% y-o-y)** primarily due to a downward price trend in the ‘supply of electricity, gas, steam, and conditioned air.’
- **June’s economic activity was hampered by a railway workers strike in the east of Ukraine, which resulted in a blockage of rail freight transportation.** Its impact was temporary albeit significant, hitting industrial production and freight turnover, which resumed declines. **However, owing to improvements in domestic trade and agriculture, IKSO growth even accelerated slightly – to 1.7% y-o-y.**
- Nominal average wages kept growing at a solid pace. **Amid easing inflationary pressure, this led to a sharp acceleration in real wage growth (to 17.3% y-o-y).**
- Low volumes of VAT refunds (UAH 0.1 billion) were an important factor contributing to the speed-up of tax revenue growth in annual terms. However, total State Budget revenues were slightly lower compared to the previous month, while expenditures continued to rise. As a result, **the state budget deficit widened.** The surplus of **local budgets narrowed to UAH 1.1 billion**, in particular due to traditional increase in expenditures for education in June. Thus, the **consolidated budget returned to a deficit.**
- The **current account balance remained positive** (USD 241 million). However, the surplus slightly narrowed compared to the previous month due to the widening of the trade deficit caused by an increase in imports. Despite less favorable conditions in global commodity markets and the strike of railway workers, merchandise exports reported a month-on-month increase. Net borrowings under the financial account were underpinned by net inflows of foreign direct investments and a decrease in cash outside banks. An overall balance of payments surplus (USD 377 million) contributed to an increase in the international reserves to USD 14.0 billion (or 3.6 months of future imports) as of 30 June 2016.
- **FX supply exceeded demand in July.** This enabled the NBU to continue to actively purchase foreign currency to replenish international reserves, without counteracting the appreciation trend driven by fundamental factors, and to further relax FX restrictions. In June, the stock of domestic currency deposits increased. Also, foreign currency deposits (denominated in USD) of non-financial corporations started to increase during that month. However, banks’ lending activity remained weak. A rapid disinflation amid improved inflation expectations and a favorable situation on the forex market enabled the NBU to continue easing its monetary policy. In particular, the key policy rate was cut to 15.5%, effective from 29 July 2016.

*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.*