



NATIONAL  
BANK OF  
UKRAINE

# Macroeconomic and Monetary Review

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**November 2016**



**Monetary Policy and Economic Analysis Department**

## Summary

- In October, the price environment for Ukrainian exporters improved due to signs of stabilization of global grain prices and a substantial increase in sunflower oil and iron ore prices. Instead, average steel prices were lower compared to the previous month. Since early November, steel prices surged up due to higher input prices, specifically coking coal and iron ore, and a pick-up in demand. Oil prices remained low due to an oversupplied global market. However, they benefitted from the OPEC agreement reached in late November to impose production caps. In November, the situation in the global financial markets was shaped by the U.S. presidential elections, the FOMC staff comments following November's Fed meeting and increasing expectations for the Fed to tighten monetary policy in December. The DXY index surged to its highest level since 2003. Meanwhile, capital outflows from emerging markets accelerated while their currencies felt depreciation pressures.
- In October 2016, as anticipated, headline consumer inflation accelerated up to 12.4% y-o-y and was in line with the NBU forecast published in the Inflation Report (October 2016), which envisaged a return of inflation to 12% y-o-y by the end of this year. Acceleration occurred primarily on account of CPI's non-core component (up by 17.2% y-o-y), whereas inflationary pressures caused by fundamental factors remained subdued (core inflation stood at 6.5% y-o-y). However, the producer price index reported a significant increase (up by 29.2% y-o-y), primarily reflecting a hike in electricity tariffs for industrial consumers and rising pressure from ascending global commodity prices.
- In October, IKSO growth accelerated up to 6.1% y-o-y. The main factor behind its acceleration was the growth of agricultural production, which more than offset deteriorating performance in other sectors. The latter was caused by both fundamental and temporary factors. Thus, due to subdued consumer demand and somewhat slower course of the harvesting campaign due to adverse weather conditions, there was a marked slowdown in some food production (particularly sugar), retail and wholesale trade. Difficulties with the supply of raw materials hampered the growth in metallurgy and caused a slowdown in freight turnover. Due to high yields of technical crops and a slight improvement in animal husbandry, the growth in agriculture accelerated to 12.4% y-o-y. Ukraine's grain harvest forecast for the 2016/17 marketing year has been revised upwards to 64 million tons.
- Demand for labor continued to recover, although mismatches between supply and demand for labor persisted by regional break-down, certain types of economic activity, and professional groups. Meanwhile, nominal average wage growth decelerated to 18.1% y-o-y due to a base effect and activity slowdown in a number of sectors. This, alongside the acceleration of inflation, caused real wages to lose momentum (growth decelerated to 6.2% y-o-y). In the meantime the total amount of subsidies accrued for reimbursement of households' utility costs rose significantly following the beginning of the heating season and reflecting the impact of the base effects.
- In October, the state budget reported a surplus of UAH 3.1 billion, primarily due to improvement in revenue performance. State budget revenues resumed growth thanks to both tax and non-tax proceeds. A resumption of NBU profit transfers to the budget was a key driver for a sharp increase in non-tax receipts. On the expenditure side, execution of both state and local budgets was rather restrained across a broad range of spending programs. As a result, the consolidated budget showed a surplus of UAH 4.8 billion.
- In October, the current account deficit narrowed to USD 234 million as the primary income account returned to a surplus. Other current account items demonstrated no significant changes. Grain crops remained the main driver for exports. Meanwhile, there was a gradual decrease in investment goods imports. Financial account net inflows (USD 311 million) were secured by the private sector, which was the result of a decrease in FX cash outside banks and debt inflows. Despite an overall BoP surplus (USD 91 million), international reserves barely changed since the previous month (amounting to USD 15.5 billion as of 31 October 2016, or 3.7 months of future imports) due to valuation effects.
- In November, heightened political tensions generated depreciation pressure on the hryvnia despite favorable fundamental external factors. The NBU smoothed excessive exchange rate volatility without counteracting dominant trends. These actions helped to stabilize the situation. Moreover, given overall favorable commodity price developments and robust exports, the fundamental drivers outweighed the impact of temporary factors in the second half of the month. In October, domestic currency deposits showed significant increase. Signs of gradual credit recovery strengthened. Coherent easing of monetary policy during the current year facilitated a further reduction in market interest rates for hryvnia-denominated resources.

*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.*