



NATIONAL  
BANK OF  
UKRAINE

# Macroeconomic and Monetary Review

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Monetary Policy and Economic Analysis Department

## Summary

- In the second half of February - early March 2016, global commodity prices experienced strong, albeit volatile, increase. **Overall, the price environment for Ukrainian exporters improved.** Investors gradually resumed interest in emerging market assets. All these amid expectations of policy decisions of the leading central banks contributed to a strengthening of emerging market currencies.
- **In February, disinflation gained momentum with the headline inflation decelerating to 32.7% y-o-y (in monthly terms consumer prices decreased by 0.4%). Although further disinflation was expected,** actual slowdown of inflation proceeded faster than it was projected by the NBU (i.e., year-on-year inflation figures were below the projected path, envisaging headline inflation at 12% by the end of 2016). Moderation of both core and non-core inflation (to 25.1% y-o-y and 34.1% y-o-y, respectively) outperformed the current forecast **mainly due to supply-side factors. Producer inflation continued to ease (to 17.4% y-o-y)** amid low global commodity prices and high comparison base.
- **In February, for the first time since May 2014, IKSO reported year-on-year growth, which was 3.0%.** The growth was underpinned by favorable statistical and calendar effects (low base of comparison and a leap year), some rebound of global commodity prices and warm weather (during winter the latter factor has a significant impact on economic activity of some sectors, e.g. construction). Industrial production, which resumed growth after a prolonged downward trend, had an important contribution to IKSO development in February. Thus, sharp increases in industrial output were reported for eastern oblasts, although statistical base effects were particularly powerful that month.
- In January 2016, nominal wage growth slowed to 26.3% y-o-y. This slowdown may be attributed to weakening wage indexation effects amid steady disinflation trend. Reflecting nominal wage development, **the decline in real wages deepened to 13.2% y-o-y.**
- The state budget recorded a UAH 4.9 billion deficit in February, driven by an expected pick-up in social expenditures amid slower revenue growth. However, **the consolidated budget showed a UAH 0.8 billion surplus** due to local budgets recording a large surplus, which is typical situation for the beginning of the year.
- Seasonally adjusted merchandise exports recovered as the temporary factors that caused January's decrease ceased, and there were signs of improving external conditions. Meanwhile, imports of goods continued to rise, reflecting, among other things, deferred demand and some relaxation of import barriers. **The current account deficit slightly narrowed, to USD 251 million,** thanks to surpluses in trade in services and primary income. The deficit was almost offset by net capital inflows, bringing **the overall balance of payments close to zero (-USD 74 million).** As of 29 February 2016, international reserves went slightly up to USD 13.5 billion (or 3.6 months of future imports) due to valuation effects.
- **The depreciation pressure on the hryvnia exchange rate eased in March.** This enabled the NBU to hold auctions to purchase foreign currency aimed at replenishing international reserves. Hryvnia slightly appreciated with respect to US dollar. In February, deposit outflow from the banking system moderated, while lending activity showed signs of revival.

*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.*