



National Bank  
of Ukraine

# Macroeconomic perspectives: key insights for strategic planning

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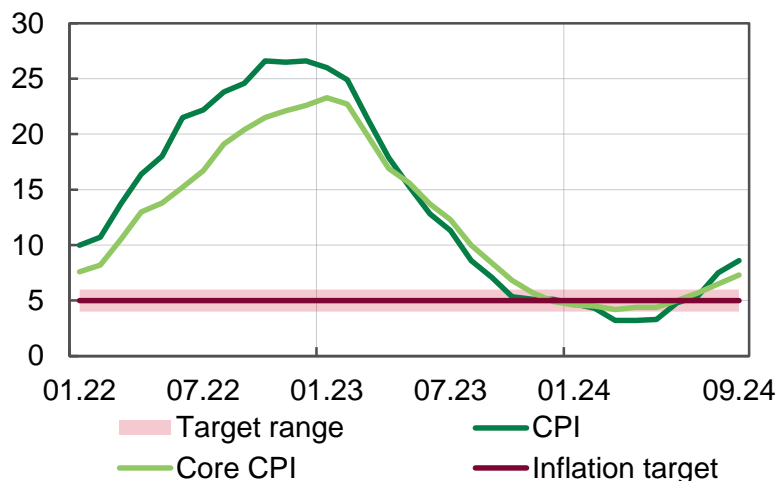
Business Summit “Co-Investment and Financing Business:  
Results and New Opportunities”  
USAID Investment for Business Resilience Activity

October 24, 2024



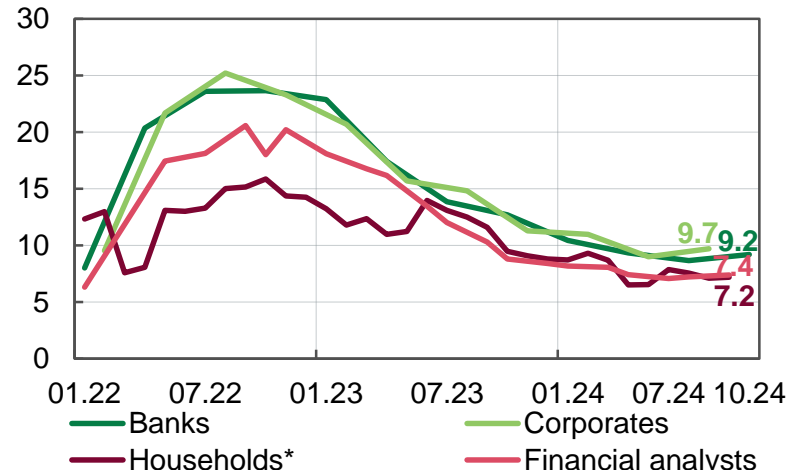
# Inflation expectedly accelerated. However, fundamental inflation pressure is stronger than forecast due to cost effects

Inflation and inflation target, % yoy



\*Source: SSSU, NBU staff estimates.

Inflation expectations for the next 12 months, %



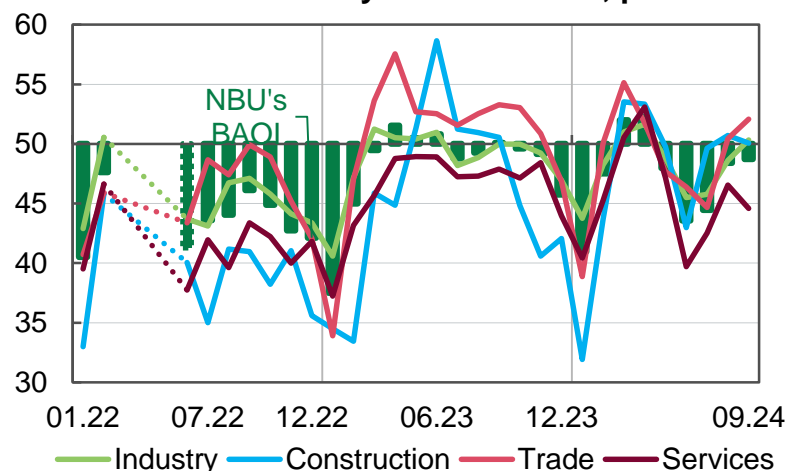
\* In March 2023, the survey method was changed from face-to-face to telephone interviews.

Source: NBU, Info Sapiens.

- Consumer inflation accelerated to 8.6% yoy and was slightly above the NBU's July forecast. The deviation was primarily caused by a shorter supply of raw food products because of draughts
- Core inflation increased to 7.3% yoy and exceeded expectations, driven by the pass-through of higher business costs for raw food inputs, energy, and labor shortages, and the effects from the depreciation of the hryvnia exchange rate in previous months.
- However, inflation expectations remained generally stable
- The moratorium on raising certain utility prices for households continued restraining the increased administered prices. Growth in fuel prices decelerated sharply. The first phase of the increase in the excise tax on fuel, effective 1 September, was primarily reflected in LPG prices, whereas low oil prices and large stocks curbed the growth in gasoline and diesel prices

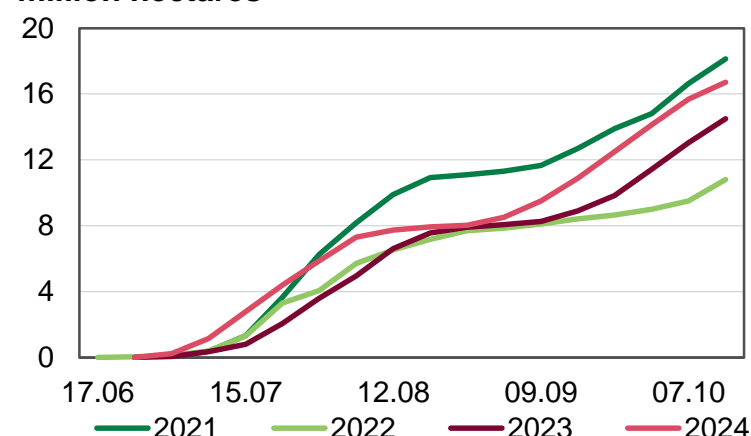
# Economic activity remains resilient due to a relatively stable energy supply, sea corridor functioning, and fast harvesting

NBU's Business Activity Outlook Index, p



A level above 50 indicates predominantly positive expectations. Survey was not conducted from March to May 2022. Source: NBU.

Harvested areas of the main agricultural crops, million hectares



Source: MinAgro.

- In September economic activity continued to pick up amid relatively stable energy supply, which influenced further improvement of business expectations. Consumer demand remained steady despite a slight deterioration in consumer sentiment
- Harvesting of late crops continues at a much faster pace than last year. However, their yield and quality are lower than last year because of the drought
- The stable functioning of the sea corridor supported the continued growth of transportation and together with the state financing of weapon production projects supported industry

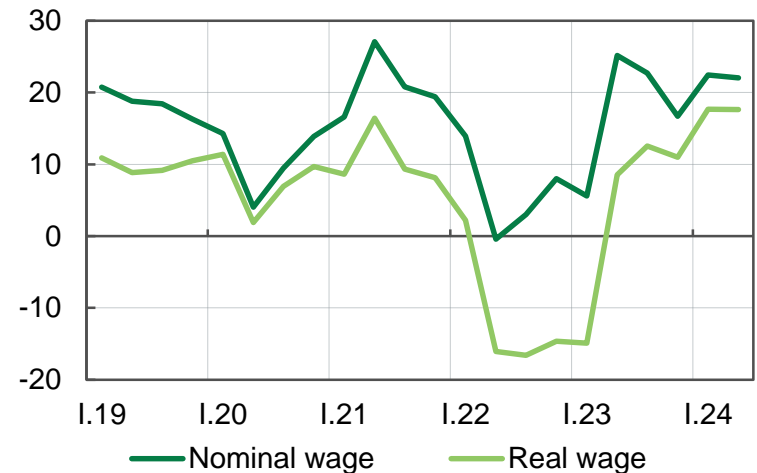
# Labor shortages remain an important issue for businesses and support wage growth

Index for difficulty of finding new employees\*



\* Difference between the shares of answers: “finding employees has become more difficult” and “finding employees has become easier”. Source: IER.

Nominal and real average wages, % yoy

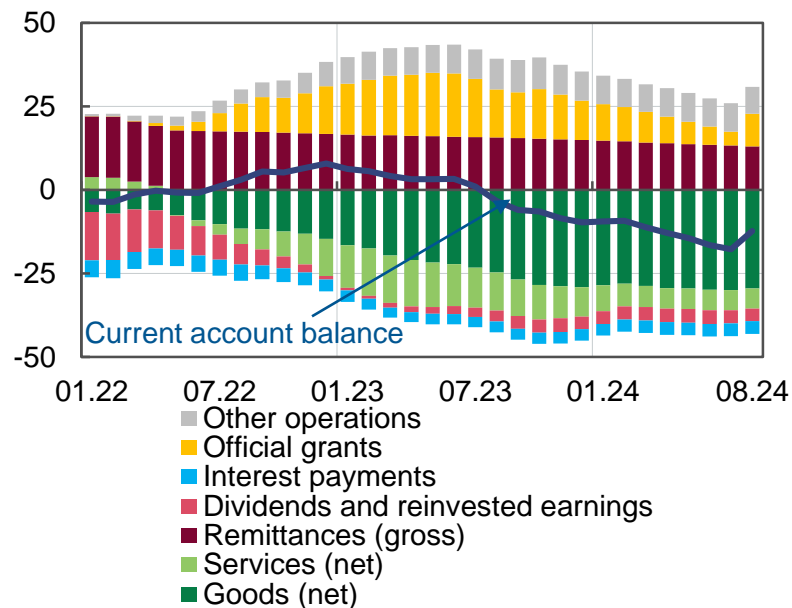


\*Source: SSSU, NBU staff estimates.

- The number of new job openings continues to grow compared to last year, particularly in large cities, driven by economic recovery. At the same time, the number of new resumes remained lower than in 2023. As a result, business assessments of the difficulty in finding employees are high and restrain business activity
- Labor supply is limited by essential migration. According to the UN, the number of Ukrainian migrants abroad is estimated at 6.7 million as of September 2024. Eurostat reports that in June 2024, 4.2 million Ukrainians were granted temporary protection in the EU
- As a result of labor shortages, real wages grew by 17.6% in Q2, supporting consumption. In most of the types of economic activity, wages even exceeded pre-war levels

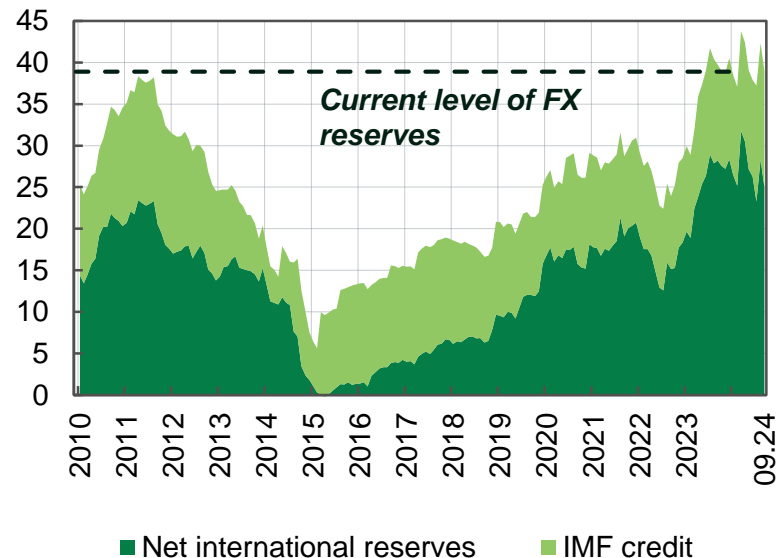
# A notable structural deficit of FX of the private sector persists, which is covered by a surplus of flows into the public sector

Current account balance, USD billions, 12-m rolling



Source: NBU.

Gross international reserves, USD billions

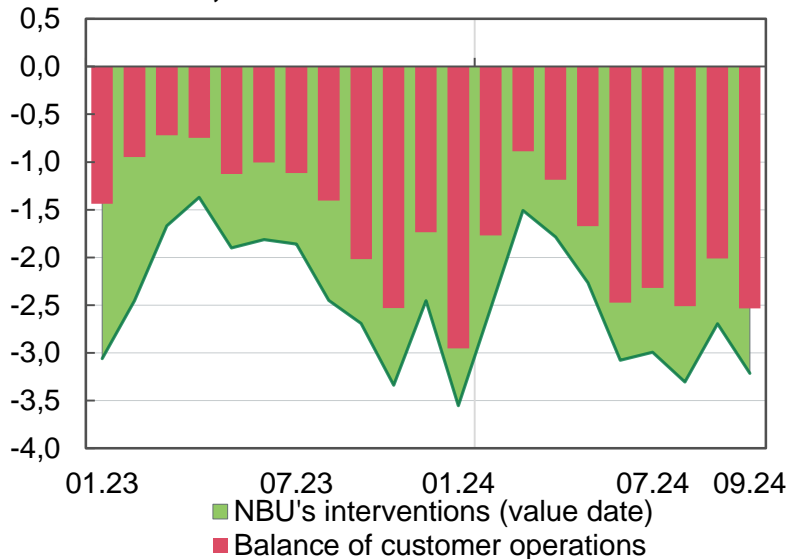


Source: NBU.

- The structural deficit of foreign currency is caused by a significant external trade deficit. In particular, limited export potential results in restrained growth of goods exports, while high domestic demand from the public (i.e. defense) sector drives an increase in goods imports. Moreover, a substantial number of forced migrants abroad has resulted in significant figures for the import of services under the travel item
- Significant volumes of financial assistance from international partners compensate for this deficit, ensuring that reserves remain at a sufficient level to maintain the stability of the foreign exchange market

# The regime of ER flexibility contributes to strengthening the role of the ER as a corrective mechanism for the economy

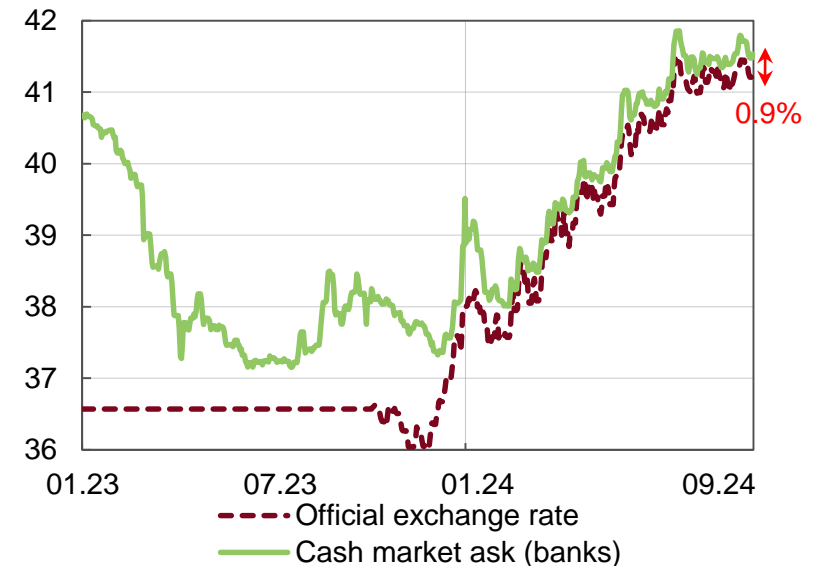
Bank clients' FX transactions\* and NBU FX interventions, USD billions



\*Net sale and purchase of noncash and cash foreign currency by bank clients (Tod, Tom, Spot).

Source: NBU.

Hryvnia exchange rates, UAH per USD

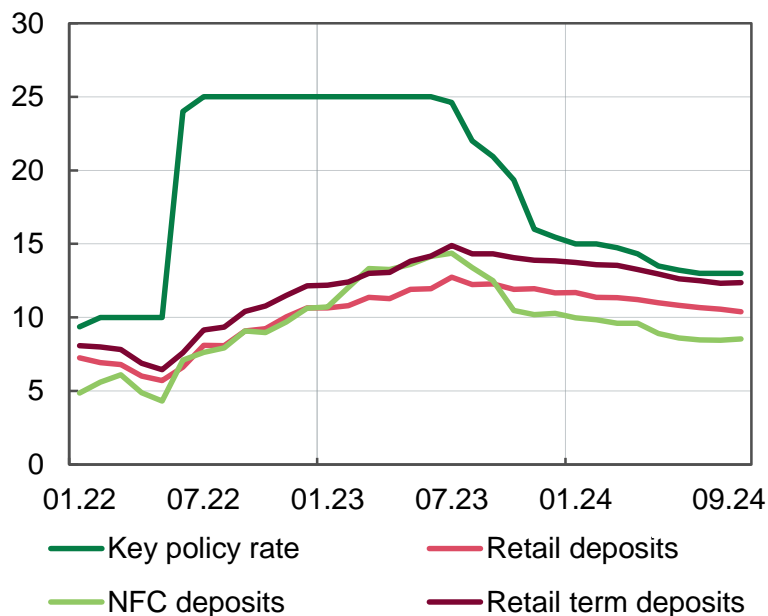


Source: NBU.

- the FX market maintains a permanent deficit of FCY, which has a fundamental basis and is covered daily by the NBU through FX interventions;
- the absence of restrictions on the cash market makes it possible to avoid the multiplicity of rates, which maintain a narrow spread between cash and non-cash rates;
- thanks to the inflow of international financial aid, international reserves, even despite significant interventions, remain at a level that allows for the stability of the FX market;
- it also enables the National Bank to carry out FX liberalization..

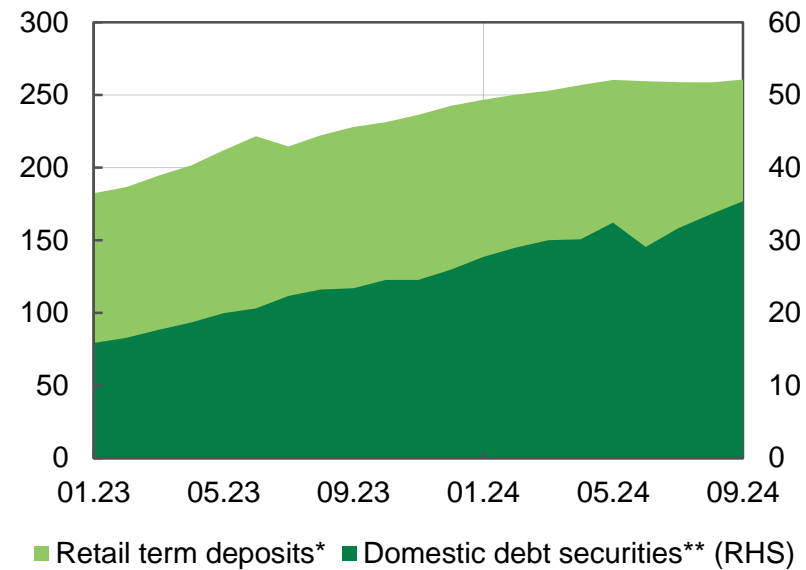
# Lending picked up. The portfolio of hryvnia domestic debt securities held by individuals resumed growth

Weighted average interest rates on hryvnia deposits and monthly average key policy rate, %



Source: Thomson Reuters.

Stock of hryvnia domestic debt securities held by individuals and retail term deposits, UAH bn



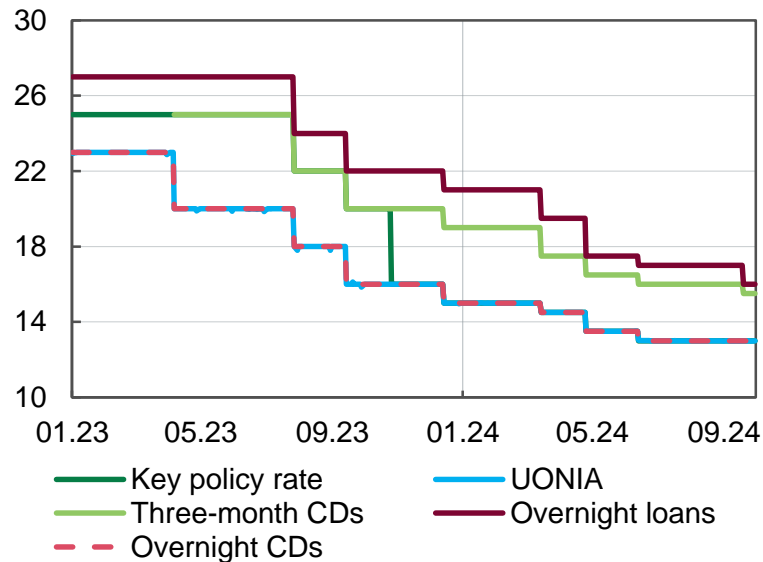
\* Preliminary data. \*\* At outstanding nominal value.

Source: NBU.

- Nominal rates on hryvnia instruments have responded to rising inflation and the key policy rate remaining unchanged in recent months. So, in September, the decline in interest rates on term deposits stopped. Yields on hryvnia-denominated debt securities make these instruments more attractive than deposits;
- These helped support households' interest in hryvnia savings: term deposits resumed growth in September, and the portfolio of hryvnia domestic debt securities is expanding at a steady pace after a temporary decline in June

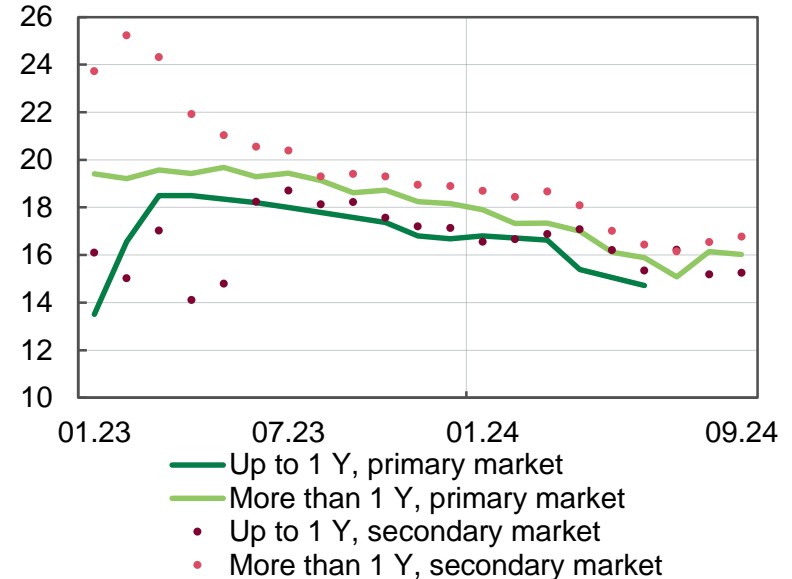
# In September, the NBU kept the key policy rate at 13%

Interest rates on NBU open market operations and Ukrainian OverNight Index Average (UONIA), %



Source: NBU.

Yields on hryvnia domestic debt securities, % per annum



Source: NBU staff calculations.

- The September decision to keep the key policy rate at 13% is aimed at sustaining interest in hryvnia savings and curbing demand in the FX market
- The NBU also applied a combination of measures to enhance banks' flexibility in managing their liquidity and to boost demand for government debt securities, thereby strengthening the government's ability to secure enough funding in the domestic debt market and avoid monetary financing



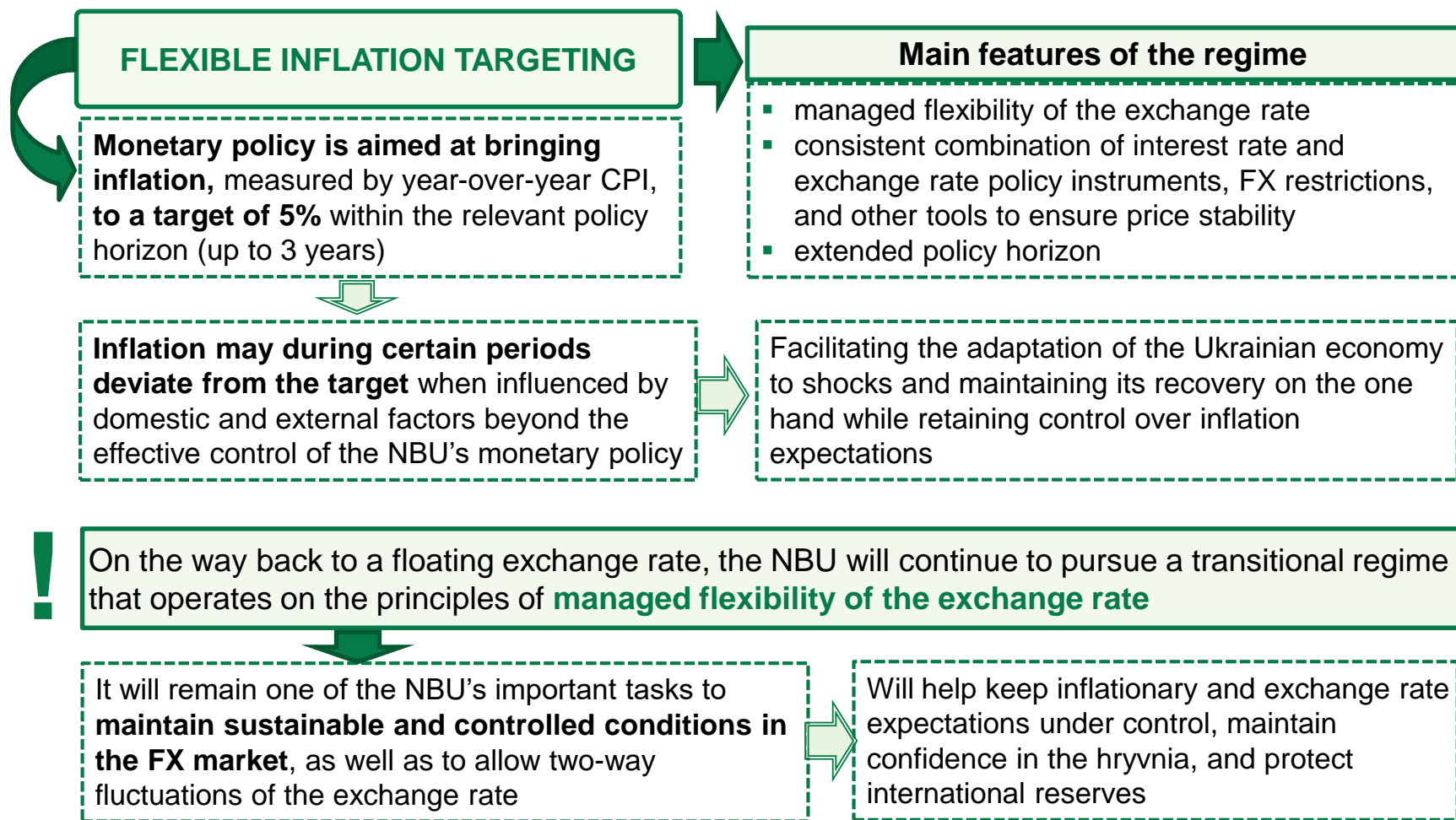
# Macroeconomic forecast (Inflation report, July 2024)

- **Economic recovery will continue** but will be constrained by the war's impact, including extensive damage to the energy system
- **Significant international financial aid** will enable the government to finance the budget deficit, and will allow the NBU to maintain a comfortable level of reserves
- **Inflation will rise moderately in the coming months** due to an increase in aggregate demand resulting from budgetary spending, businesses' larger expenses on wages and electricity, and higher excise taxes. However, the NBU's prudent monetary policy and lower external price pressures will contribute to a gradual decline in inflation and its return to the target of 5% in the coming years
- **The NBU will also maintain an active presence on the FX market** to cover the structural deficit of FX, support two-way exchange rate fluctuations, and smooth out excessive volatility. **The NBU will respond flexibly to changes in the balance of risks to inflation and the FX market**

Inflation report (July 2024)	2023	2024	2025	2026
Real GDP, change, %	5.3	3.7	4.1	4.8
CPI, % yoy (eop)	5.1	8.5	6.6	5.0
International reserves, USD bn	40.5	41.2	37.3	32.0
Consolidated budget deficit, % GDP *	26.9	22.8	17.8	10.3
Official financing, USD bn	42.9	38.0	31.4	21.1

\* excluding grants

# The NBU introduced the regime of flexible inflation targeting to maintain price stability



*The NBU will continue to flexibly adapt its monetary policy if macroeconomic indicators deviate from expectations and if the balance of risks to inflation, the FX market's sustainability, and economic development changes significantly*

# Ensuring monetary stability and reducing economic uncertainty will contribute to ramp up lending and support Ukraine's economic recovery

**Creating an environment of low and stable inflation**



- Maintaining confidence in hryvnia
- Retaining the control over inflation expectations
- Reduction of the component of inflationary risks in the structure of market interest rates

**Managed flexibility of the exchange rate and gradual transitioning back to a floating**



- Balanced assessment of FX risks by economic agents
- Lower risk of an accumulation of foreign trade imbalances
- Increasing the resilience of the Ukrainian economy and the FX market to internal and external shocks

**Reducing economic uncertainty**



- Improving business expectations
- Boosting production efficiency
- Lowering the risk premium and loosening banks' lending standards

The implementation of the [Lending Development Strategy](#) will help maintain credit demand and focus credit supply on the country's priority areas to ensure a sustainable recovery of the country's competitive economy