

# Ukraine: Macroeconomic and Policy Outlook

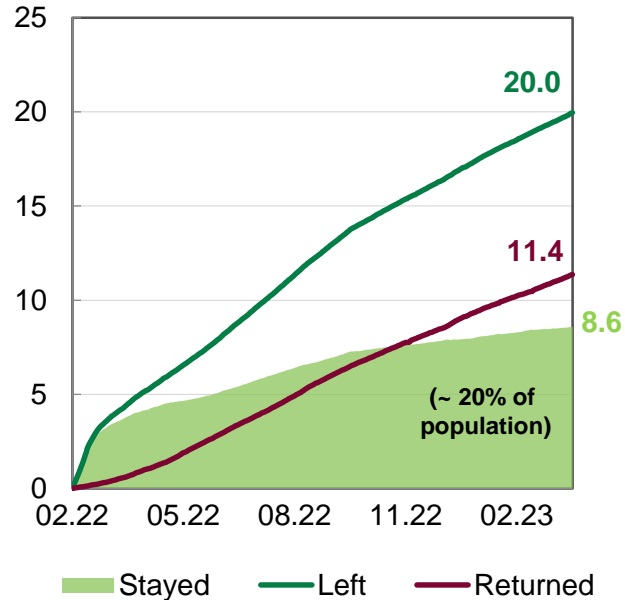
**Sergiy Nikolaychuk**

Deputy Governor

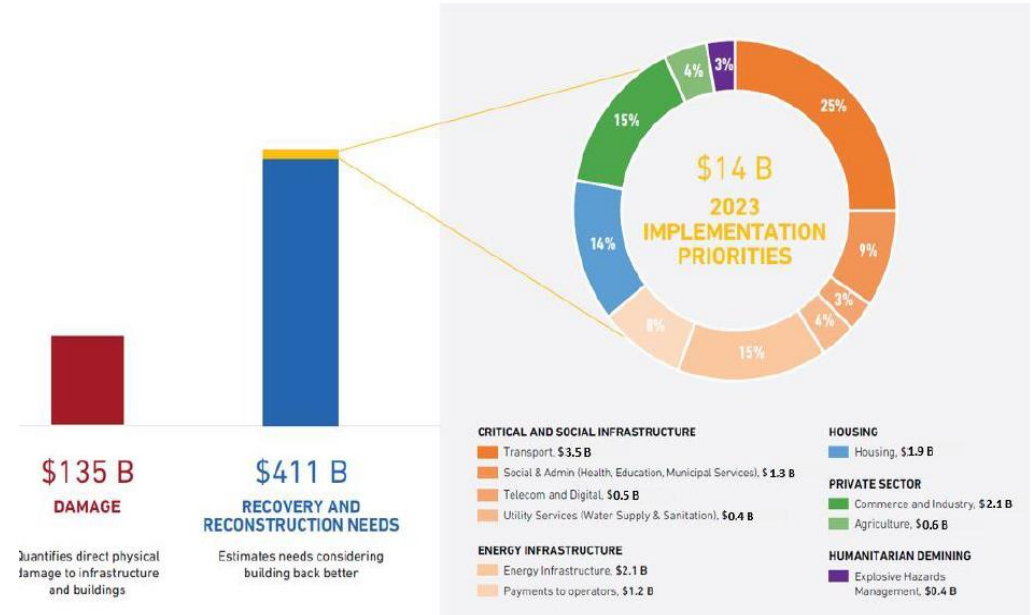


# The human and economic losses caused by the war are enormous

Ukrainian refugees, mn persons



Estimated recovery and reconstruction needs (USD bn)



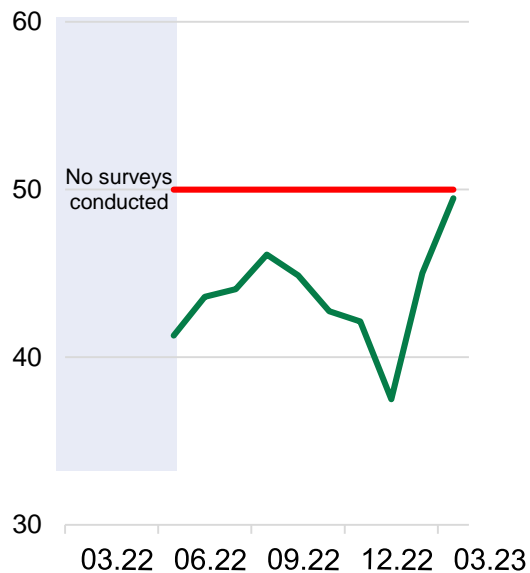
As of February 24, 2023.

Source: Rapid Damage and Needs Assessment Report (WB, EC, UN, Government of Ukraine)

Source: UNHCR.

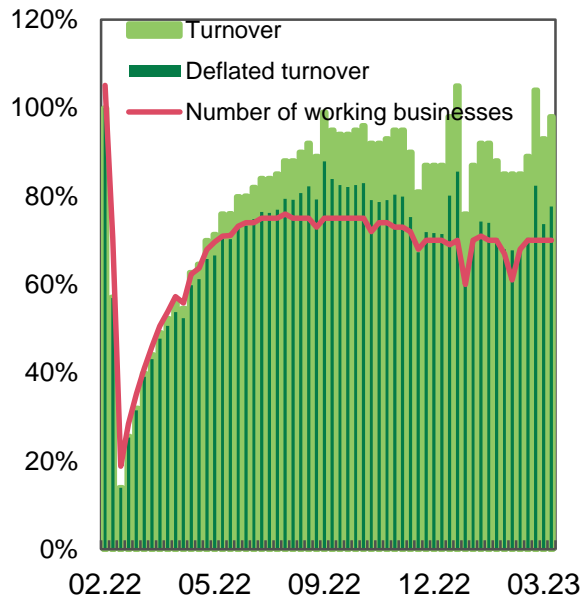
# The economy has been gradually recovering

## Business activity expectations index (BAEI)



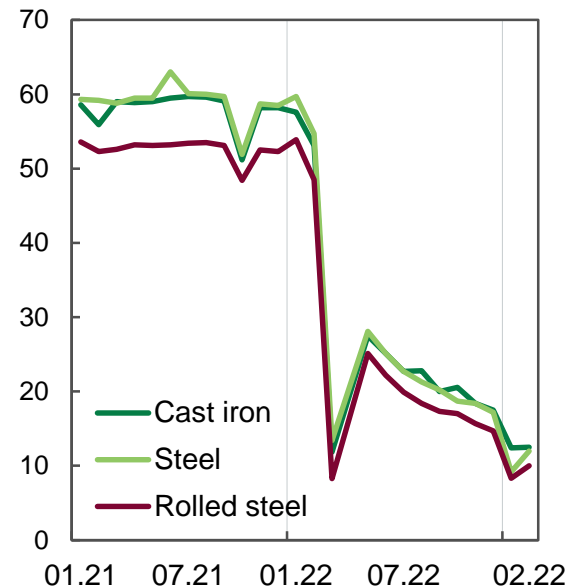
Source: NBU

## The number and turnover of working café and restaurants, % to the pre-war level



Source: Poster.

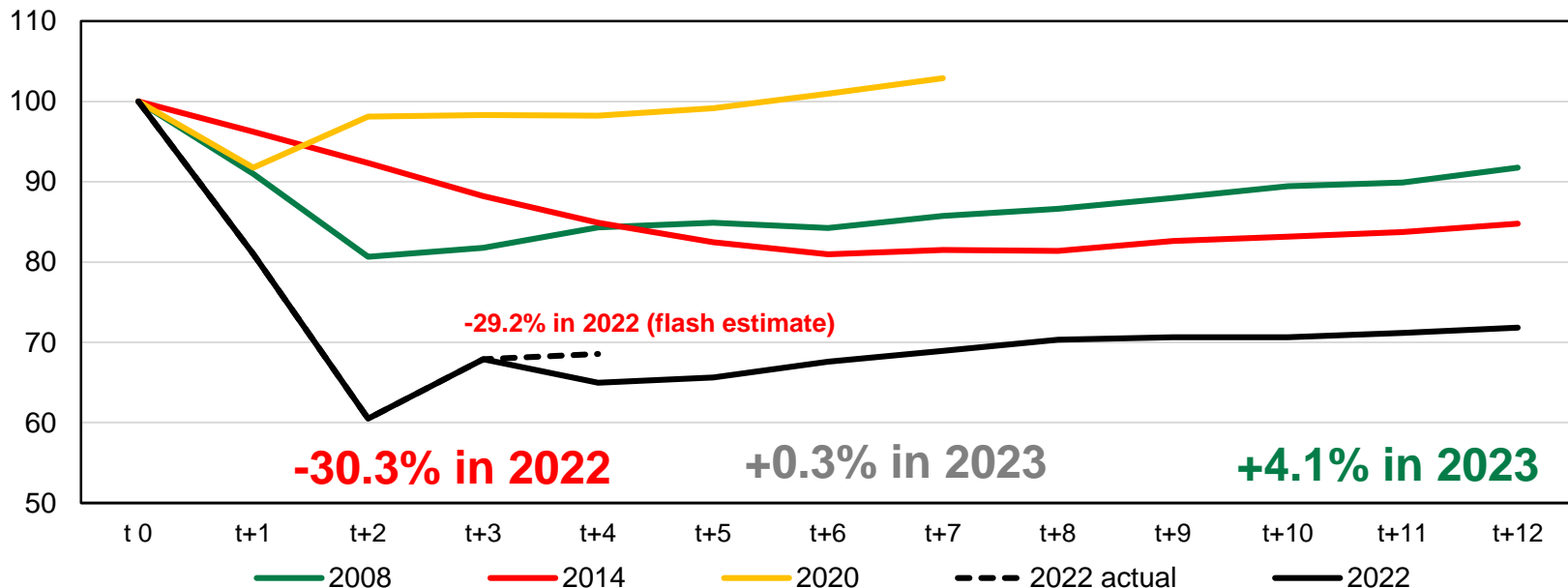
## Average daily production of steel, cast iron and rolled steel, thousand tons



Source: Ukrmetallurgprom.

# The recovery will continue gradually but subject to great uncertainty

Real GDP during various crises, index (quarter before the crisis = 100%)

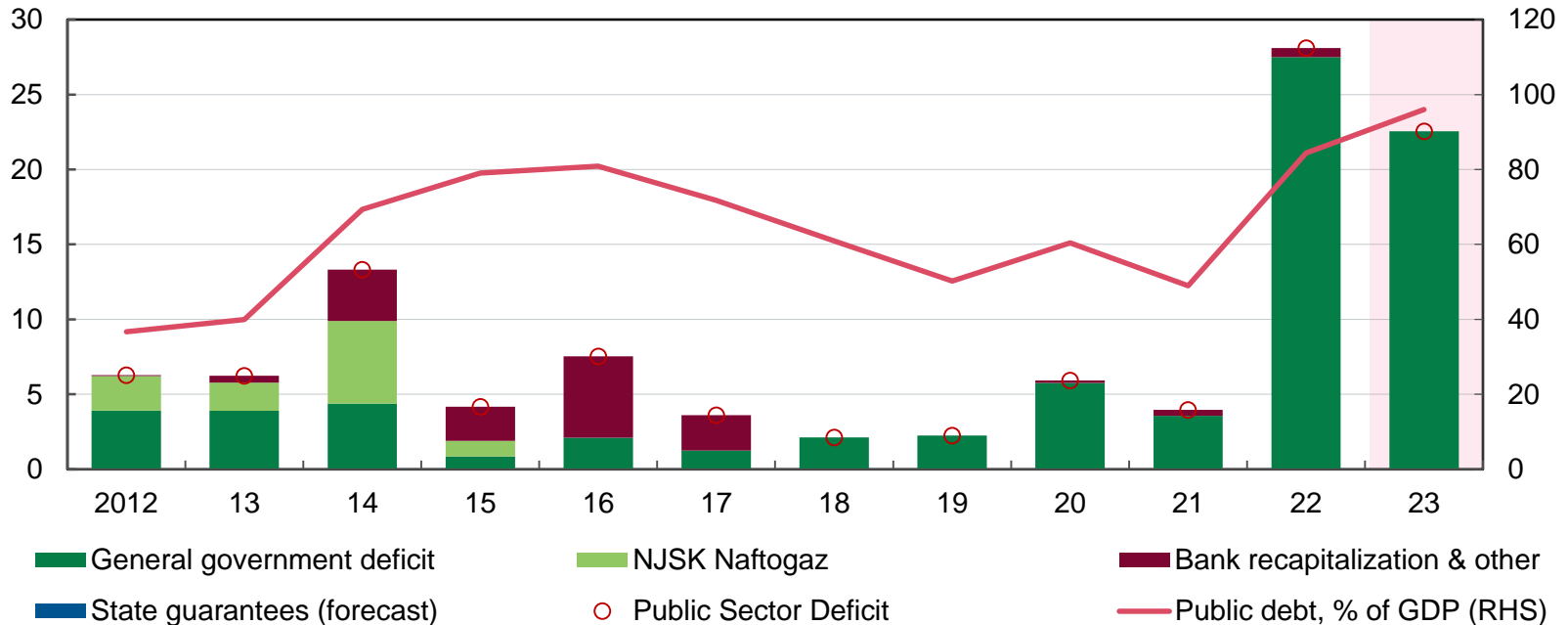


t0= 4Q2008; 4Q2013; 1Q2020; 4Q2021.

For 2022: Since t+4 – NBU forecast as of Inflation Report (January 2023). “2022 actual” is flash estimate by SSSU

# In 2022, budget deficit skyrocketed and will remain high in 2023 primarily due to sizable expenditures on defense and security

Public sector deficit\* and debt, % of GDP

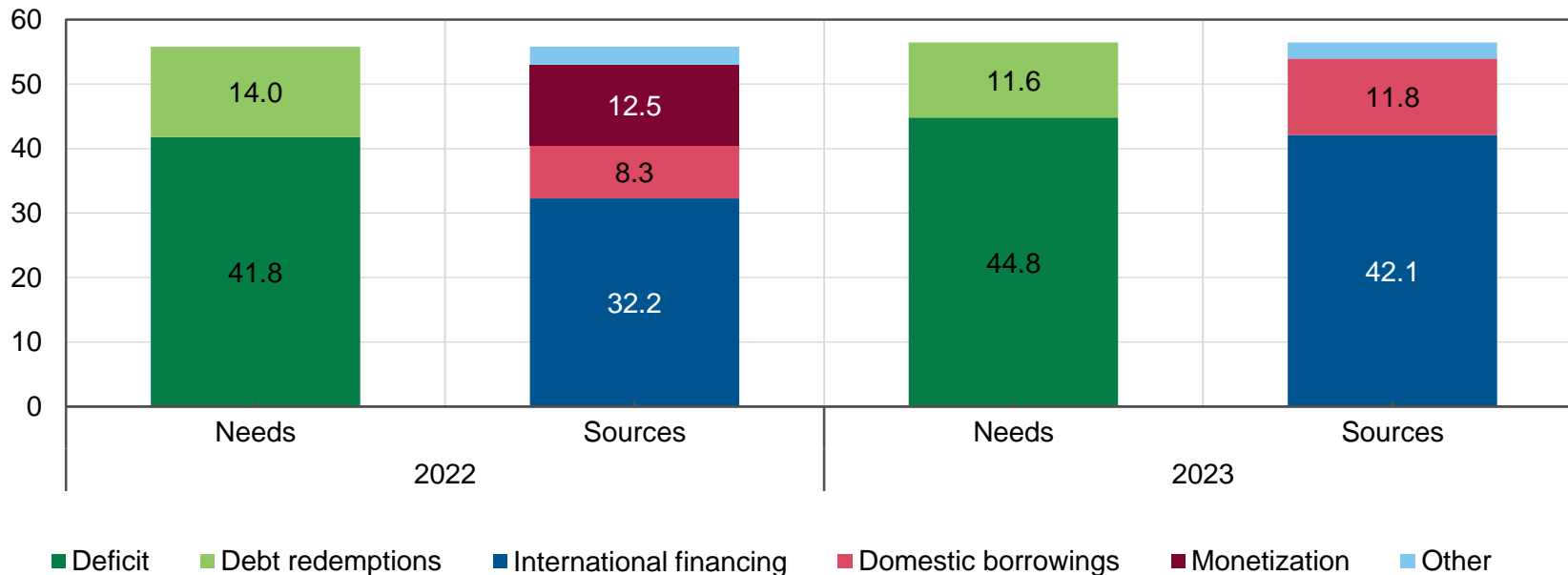


\*Excluding grants from revenues for 2022-2023

Source: STSU, MoF, IMF, NBU staff calculation, NBU estimates (January 2023).

# International support is accelerating its pace, helping to cover Ukraine's budget needs. Monetary financing stopped in 2023

Budget needs and financing by sources\* in 2022-2023, USD bn



\* Deficit excludes grants. International financing includes grants. Other financing represents active operations, in particular, the change in volumes of government funds.

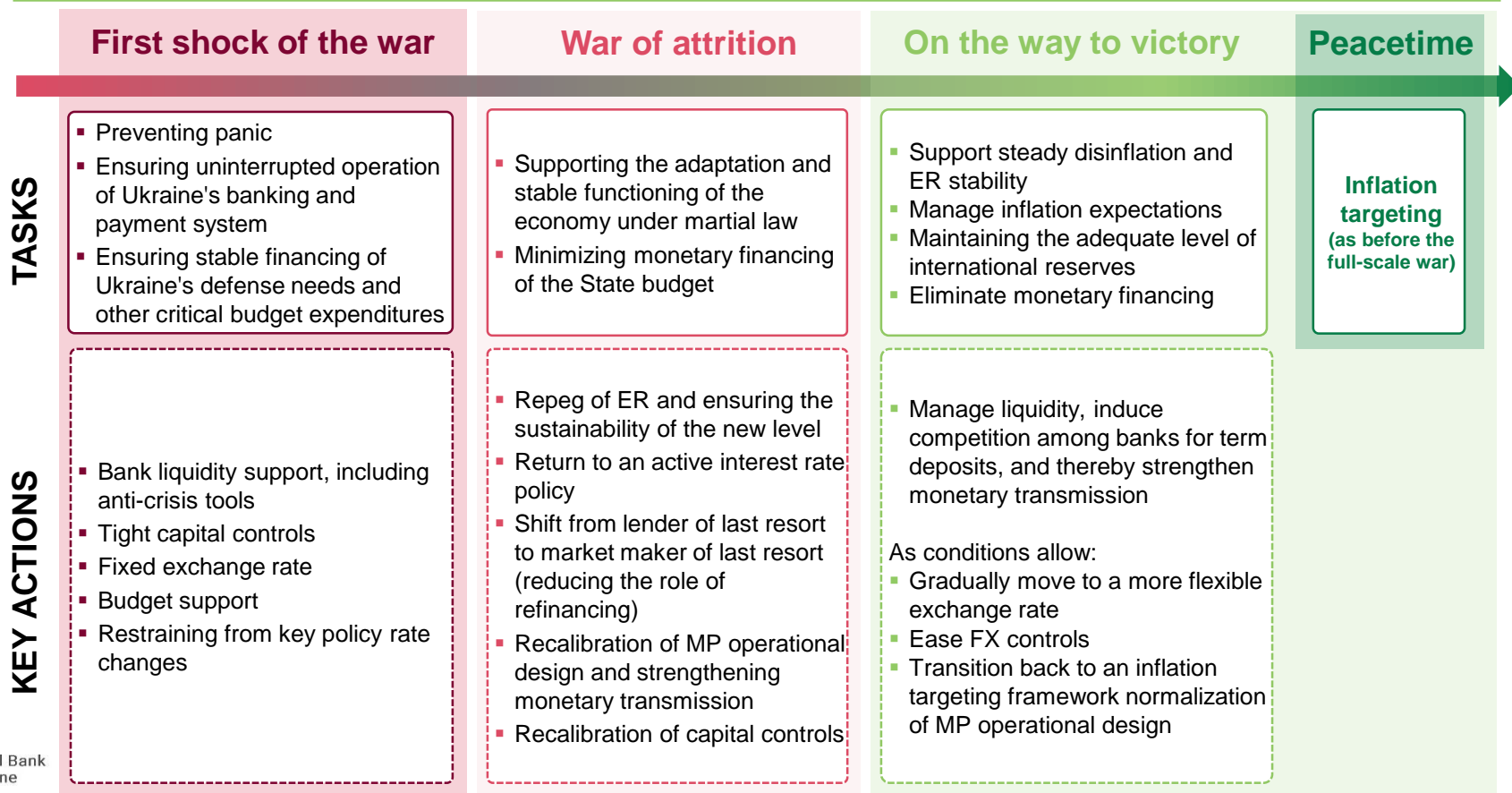
Source: STSU, MoF, NBU staff calculations.

# Evolution of the NBU's monetary policy in the wartime

(Phase 1 of EFF)

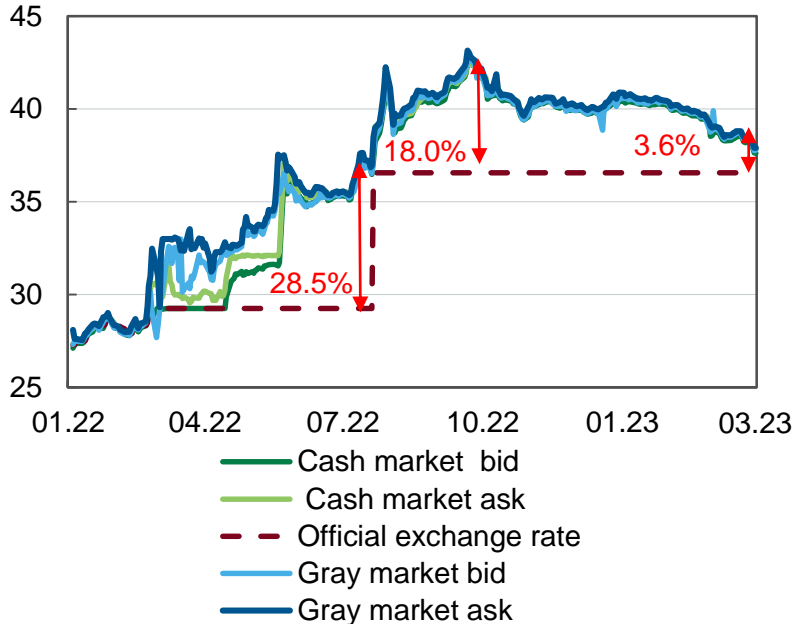
(Phase 2 of EFF)

Time



# NBU measures allowed to stabilize FX market, but conditions for exchange rate flexibility are not fulfilled yet

Exchange rate UAH/USD\*



\*As of 30.03.2023.

Source: NBU, open sources.

## ➤ Factors of FX market stabilization

- Stronger external position due to international aid acceleration, adjustment of the economy to war conditions and grain deal implementation
- Recalibration of capital controls
- Tighter monetary conditions
- Additional measures to lower demand and increase supply on cash market
- Decline in intensity of shelling (other than at frontline) and successes of Ukrainian Armed Forces
- Further stabilization of expectations

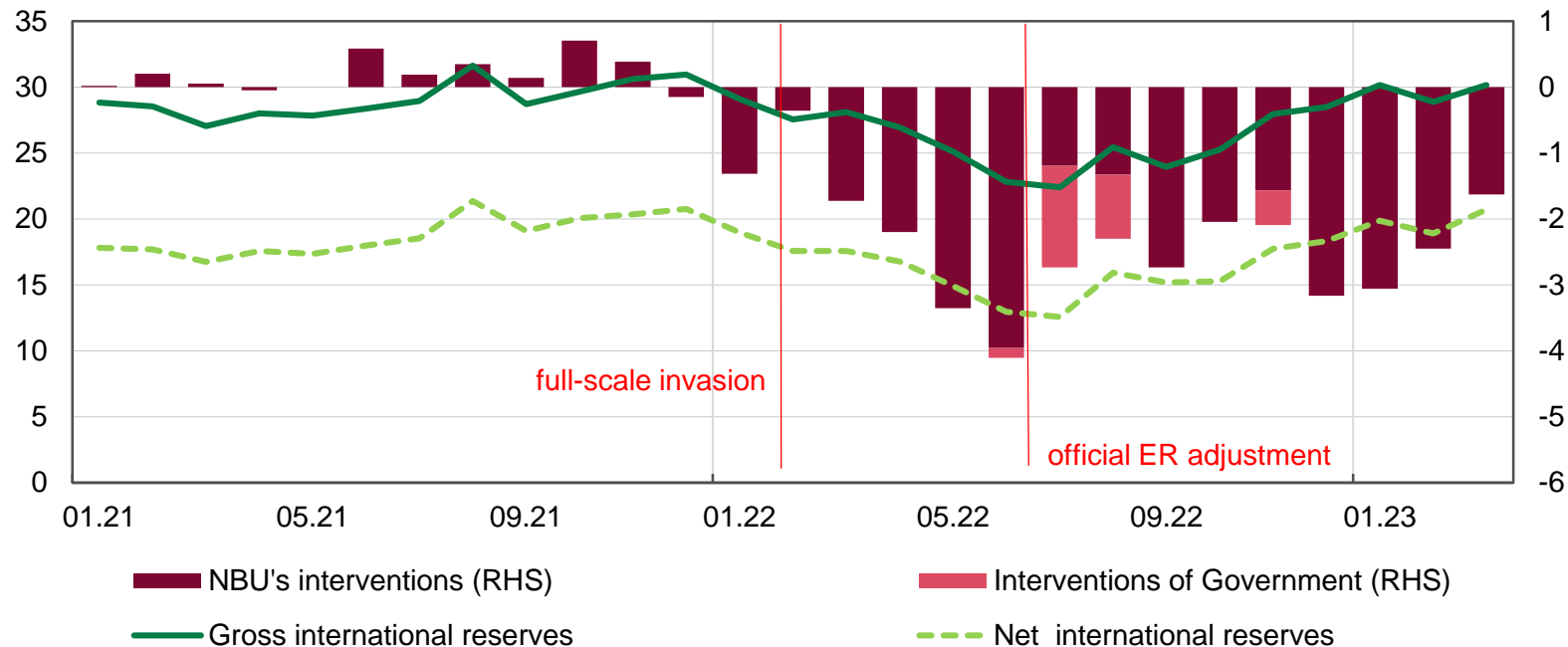
## ➤ Preconditions to move to more flexible ER:

- Reliable alternative nominal anchor
- Stronger monetary transmission
- Higher attractiveness of UAH assets and higher share of HH term deposits
- Lower mismatches in the FX market
- Elimination of multiple currency practices
- The sufficient stock of international reserves



# International reserves position improved recently reflecting international support acceleration, ER repeg and other measures

FX reserves and NBU net FX purchases\*, USD bn

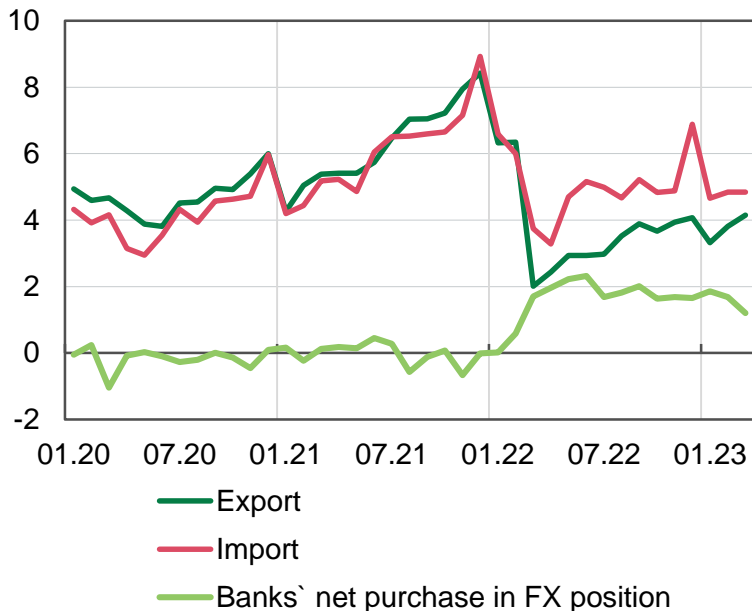


\* As of 30.03.2023.

Source: NBU.

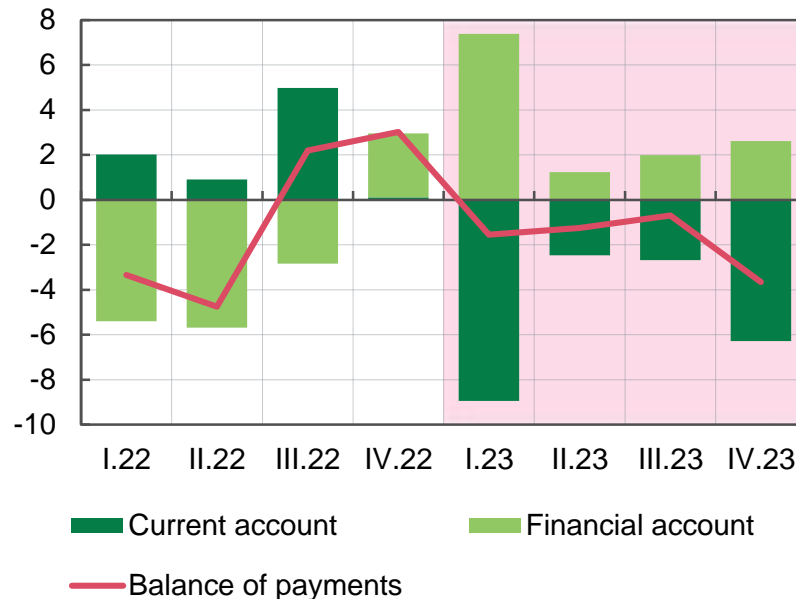
# After a sharp decrease trade flows are gradually recovering, the drop in exports was deeper due to problems with production and logistics

Trade flows payments and banks` net purchase in FX position\*, USD bn



\*Data as of 30.03.2023  
Source: NBU.

Balance of payments, USD bn



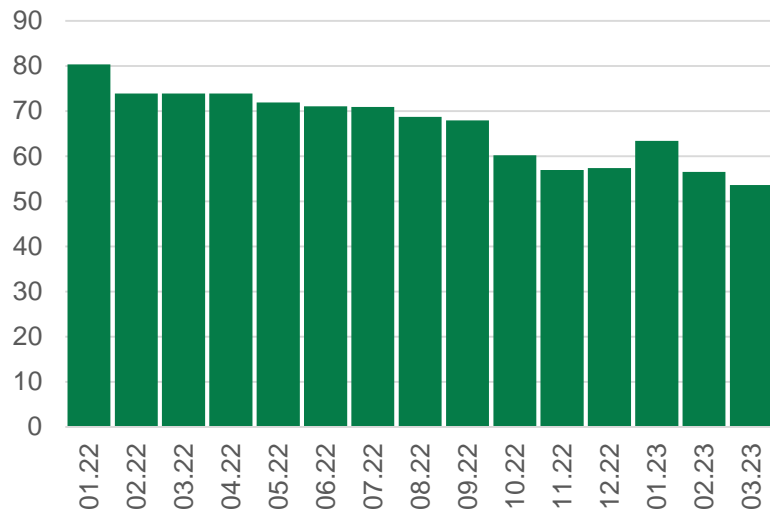
Source: NBU staff estimates.

# NBU: some measures on the FX market to stabilize situation and prevent the unproductive capital outflow

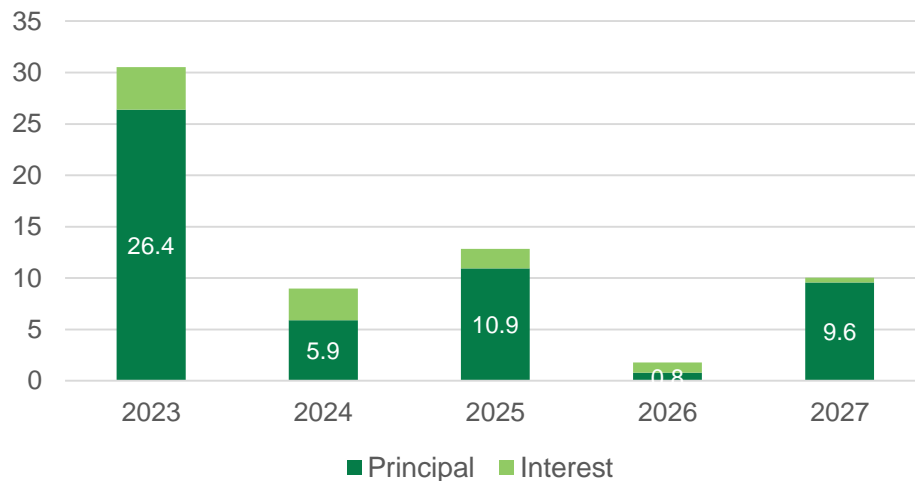
	Feb-24	March	Apr	May	Jun	Jul	Aug	Sep	Oct
<b>Individuals</b>	FX cash withdrawals from FX accounts	✘ Full ban	UAH 30K / day → UAH <b>100K / day</b>						
	FX cash withdrawals abroad from UAH accounts	✔ No limit	cap → UAH <b>100K / month</b>		→ UAH <b>50K / month</b>		→ UAH <b>12.5K / week</b>		
	FX payments from UAH card accounts	✔ No limit					cap → UAH <b>100K / month</b>		
	P2P card transfers	✔ No limit	cap → UAH <b>100K / month</b>				→ UAH <b>30K / month</b>		✘ Full ban
	FX cash purchases from banks	✘ Full ban		cap → FX cash purchased by banks ER – official + 10%	ER - <b>no restrictions</b>		+ <b>50%</b> of noncash FX purchased from individuals cap → UAH 50K / month + depositing it for 3 months	+ <b>100%</b> of noncash FX purchased from individuals	
	Online FX purchases	✘ Full ban							→ UAH 100K / month + depositing it for 3 months
	ER for card payments	cap → official + 1%		→ official + 10%	→ <b>no restrictions</b>				
	SWIFT payments abroad	✘ Full ban							
<b>Corporates</b>	Imports payments	list of critical imports:	goods ~65% services 0%	← allowed →	~90% ~30%		→ <b>100%</b> (no restrictions) → <b>~50%</b>		
	Deadline for settlement of export-import transactions	365 days		→ 90 days		→ 120 days	→ 180 days		
	Repayments of debts abroad	✘ Full ban							
	Transfer of FX funds to accounts of foreign units (there are certain requirements)	✘ Full ban							allowed for available FX currency; to sustain the operation of units; ¼ of the amount transferred in 2021
<b>Banks</b>	FX open position				15% → <b>5%</b>				
	Repayments of loans to nonresidents				early repayments are <b>prohibited</b>				

# Non-Residents holdings of G-bonds

## UAH G-bonds holdings by non-residents, UAH bn

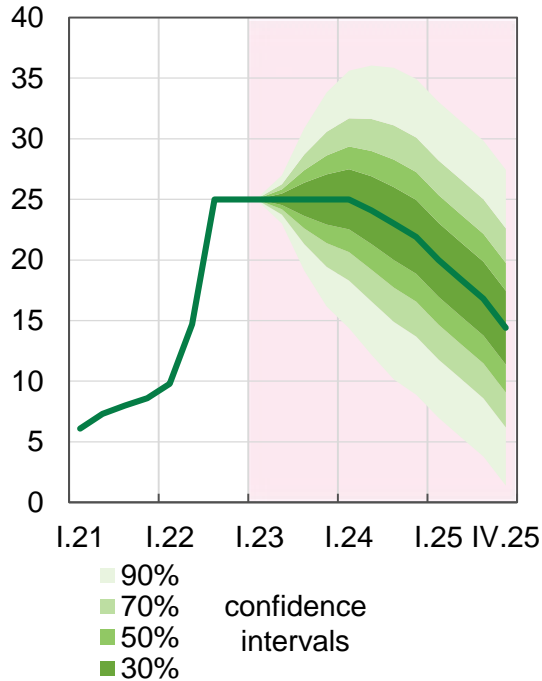


## Schedule of repayments to non-residents, UAH bn

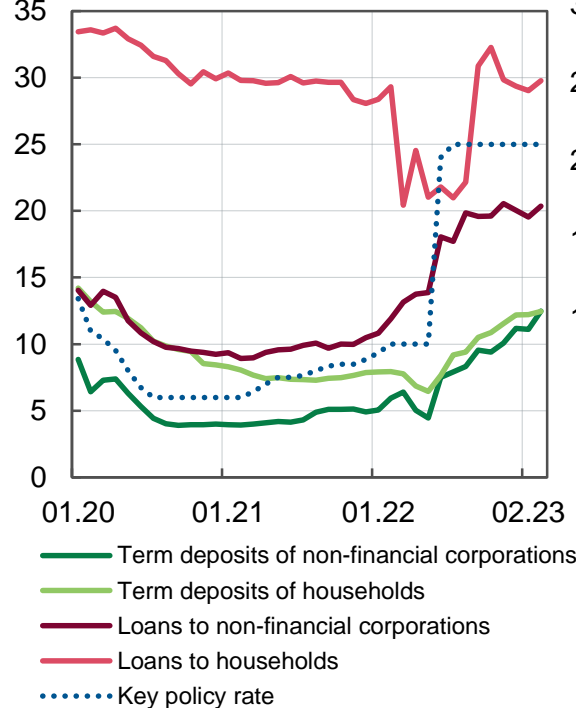


# Relatively tight monetary conditions aim to support attractiveness of UAH assets

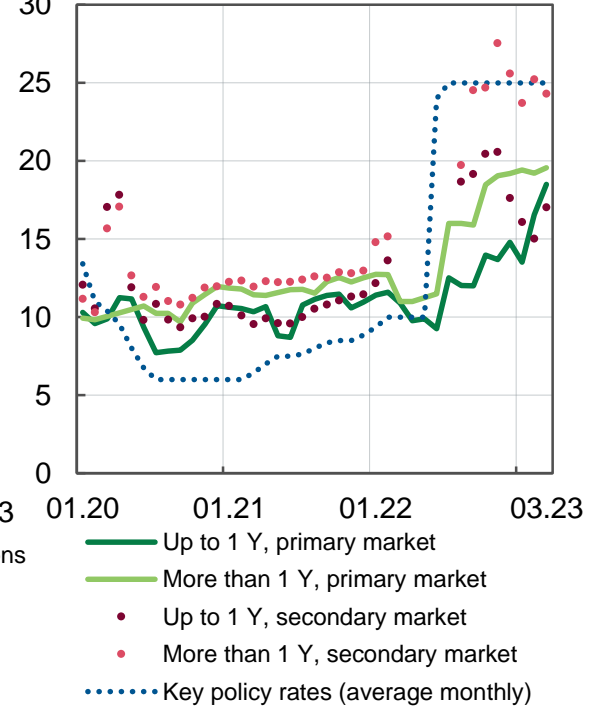
Key rate, %\*



Weighted average interest rates on new hryvnia loans and deposits, %



The yields on hryvnia government bonds, % pa



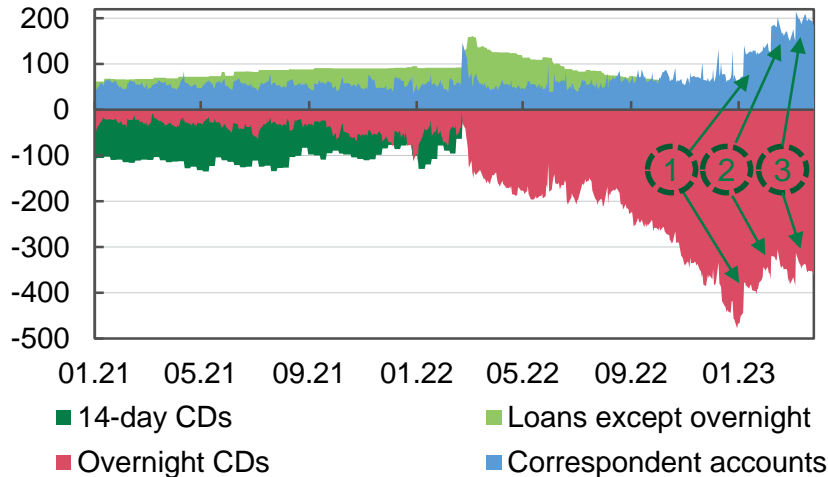
\* As of Inflation Report, January 2023.  
Source: SSSU, NBU staff estimates.

Source: NBU.

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# NBU makes efforts to manage bank sector liquidity and induce competition among banks for term deposits

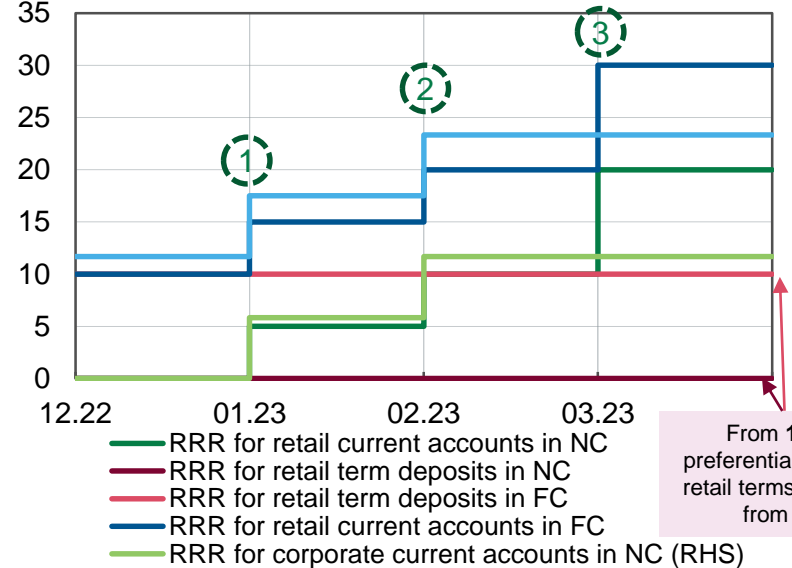
Indicators of banking sector liquidity, UAH bn



\*Loans excluding insolvent banks and banks undergoing liquidation.

As of 30.03.2023.  
Source: NBU.

Reserve requirements ratio (RRR), %



From 11.05: preferential RRR for retail terms deposits from 3m

NC – in the national currency, FC – in the foreign currency.  
Source: NBU.

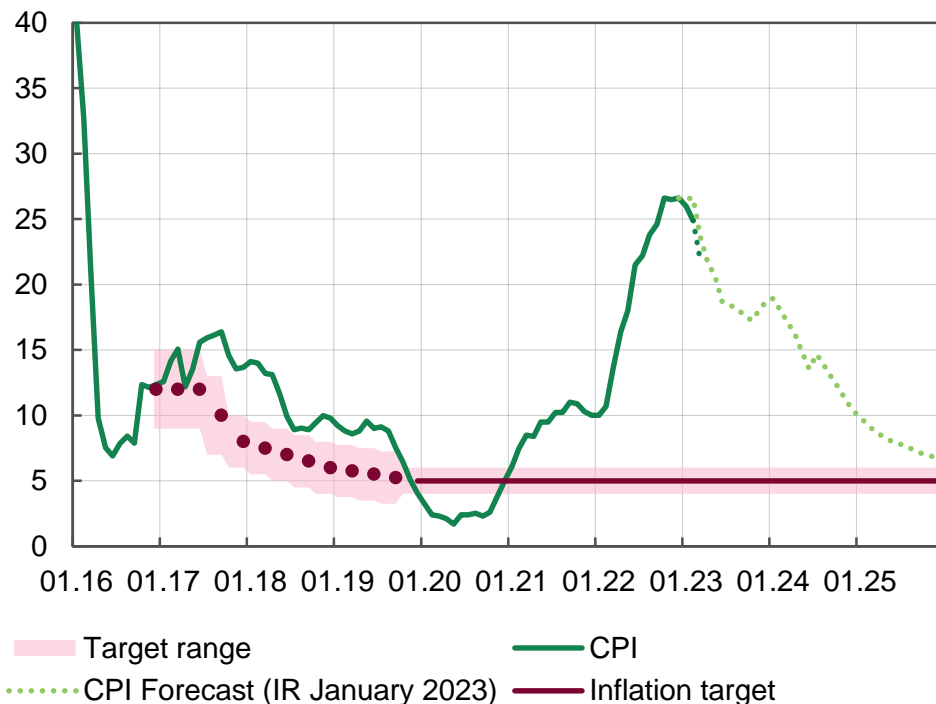
① From 11.01: ↑ RRR, up to 50% RR benchmark G-bonds coverage

② From 11.02: ↑ RRR, list of benchmark G-bonds expanded

③ From 11.03: ↑ RRR, without benchmark G-bonds coverage

# Price stability remains the primary objective of the NBU

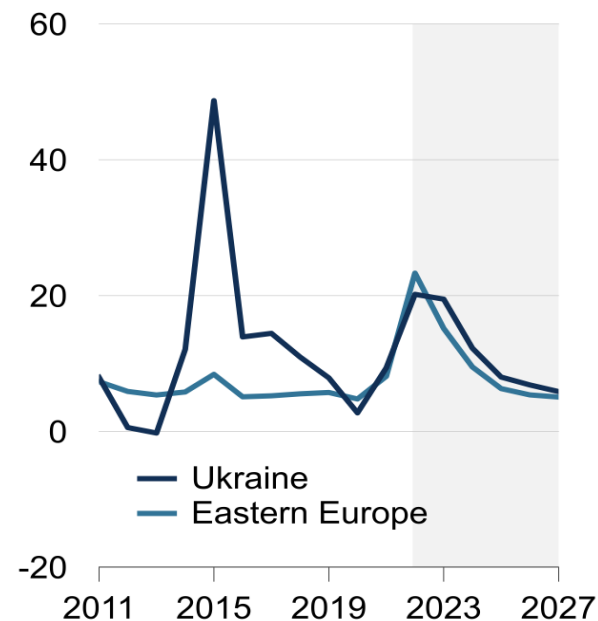
## Inflation\* and inflation target, % yoy



\* Data for March 2023 reflects nowcast.

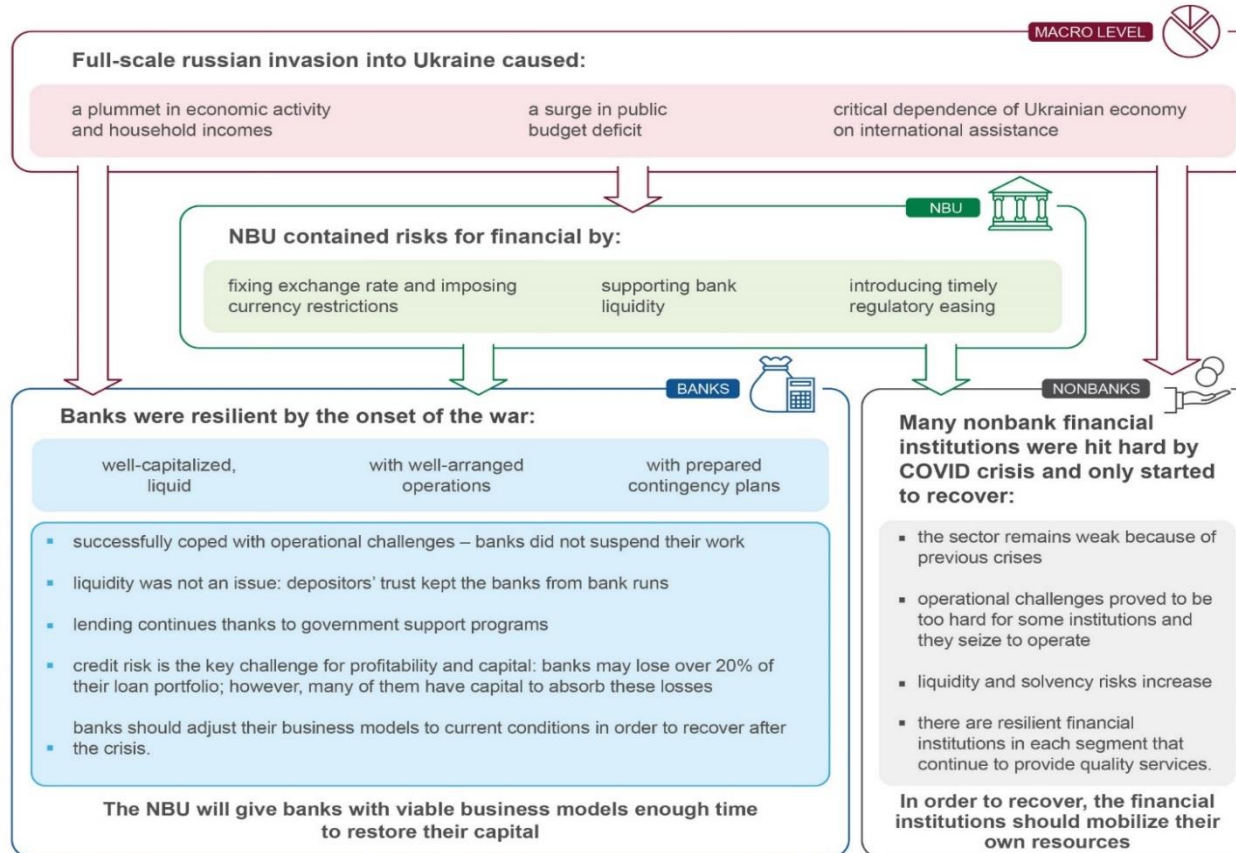
Source: SSSU, NBU.

## 18 | Inflation | 2011-2027 | in %



Source: Focus Economics (March 2023).

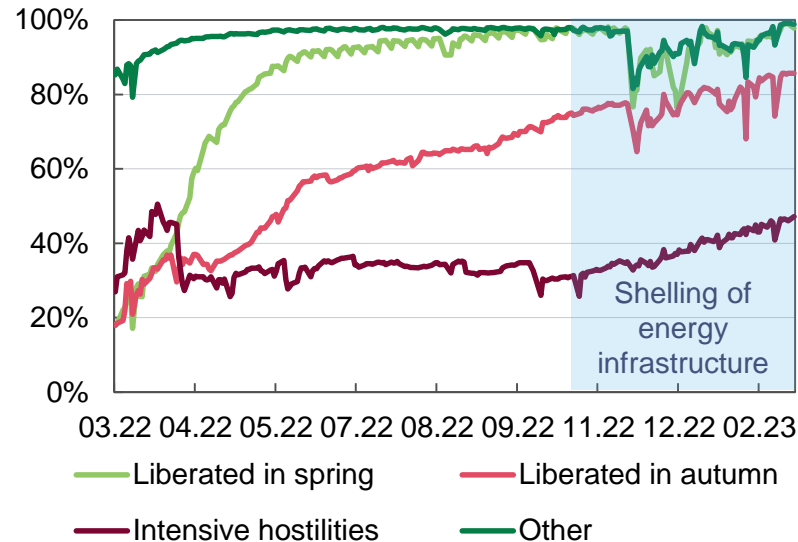
# War effects to financial sector





# Banking system remains operational and liquid

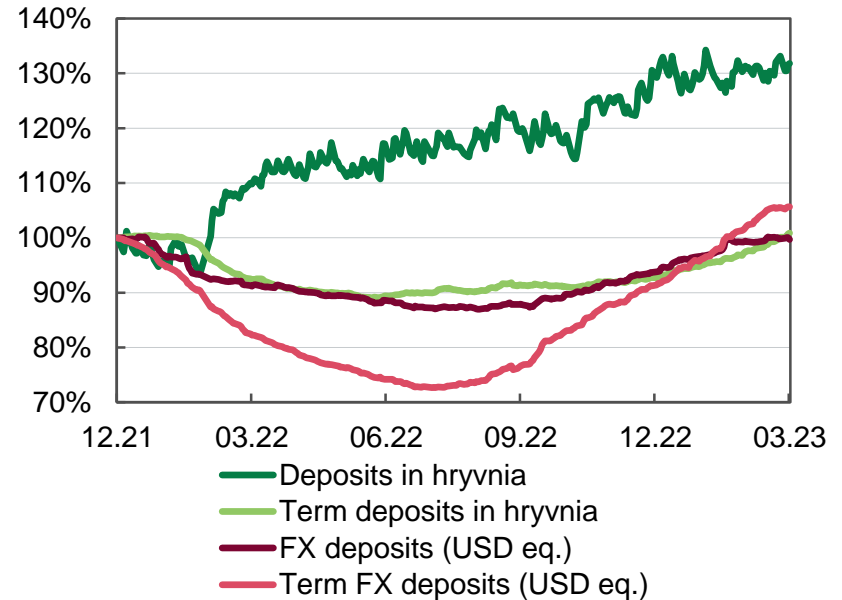
Share of operating branches of systemically important banks



Regions are classified into three groups: “Liberated” – Kyiv city and Kyiv, Sumy, and Chernihiv oblasts; “Intensive hostilities” – Donetsk, Luhansk, Kharkiv, Zaporizhzhia, Mykolaiv, and Kherson oblasts.

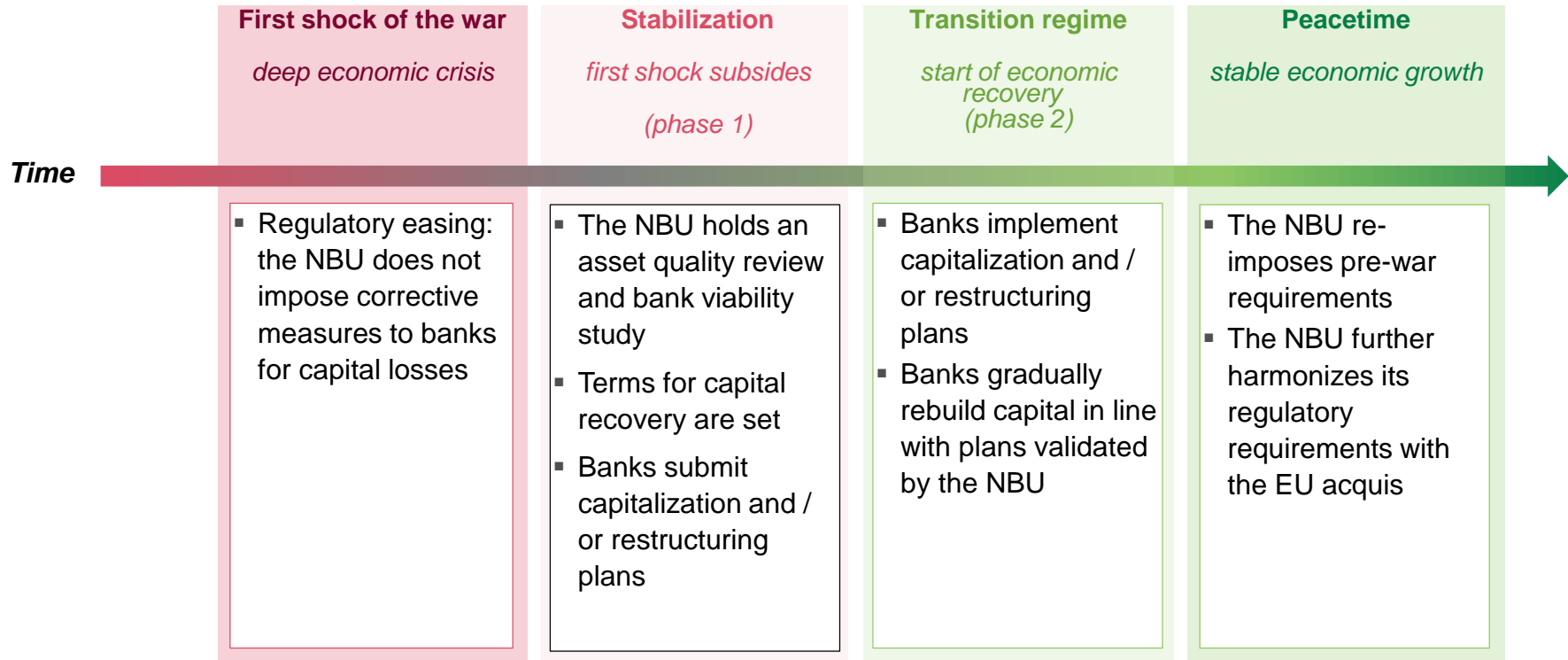
Source: survey of systemically important banks.

Deposits, 31 Dec 2021=100%



Source: NBU. daily data. Retail deposits include certificates of deposit. at banks that were solvent as of 1 February 2023.

# NBU will set a schedule for banks' capital recovery



# Conclusions

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- Despite full-scale invasion and continuous terrorist attacks of russia, the Ukrainian financial system and the NBU are well functioning and supporting war efforts
- NBU policy priorities remain the same, namely ensuring price and financial stability
- To achieve its goals, the NBU employs a mix of traditional tools (ER-peg and capital controls) and unconventional ones (e.g. hedging instruments for HHs)
- A new IMF program focuses on eliminating monetary financing of budget, ensuring steady disinflation and stable exchange rate, strengthening monetary transmission
- As conditions permit, NBU is going to “normalize” its monetary policy and return to inflation targeting and more flexible ER according to pre-designed strategy
- Banks remain operational and NBU is gradually preparing for the unwinding of emergency measures, with restoration of accounting and prudential norms
- **Keep calm and stay with Ukraine!**



# National Bank of Ukraine

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