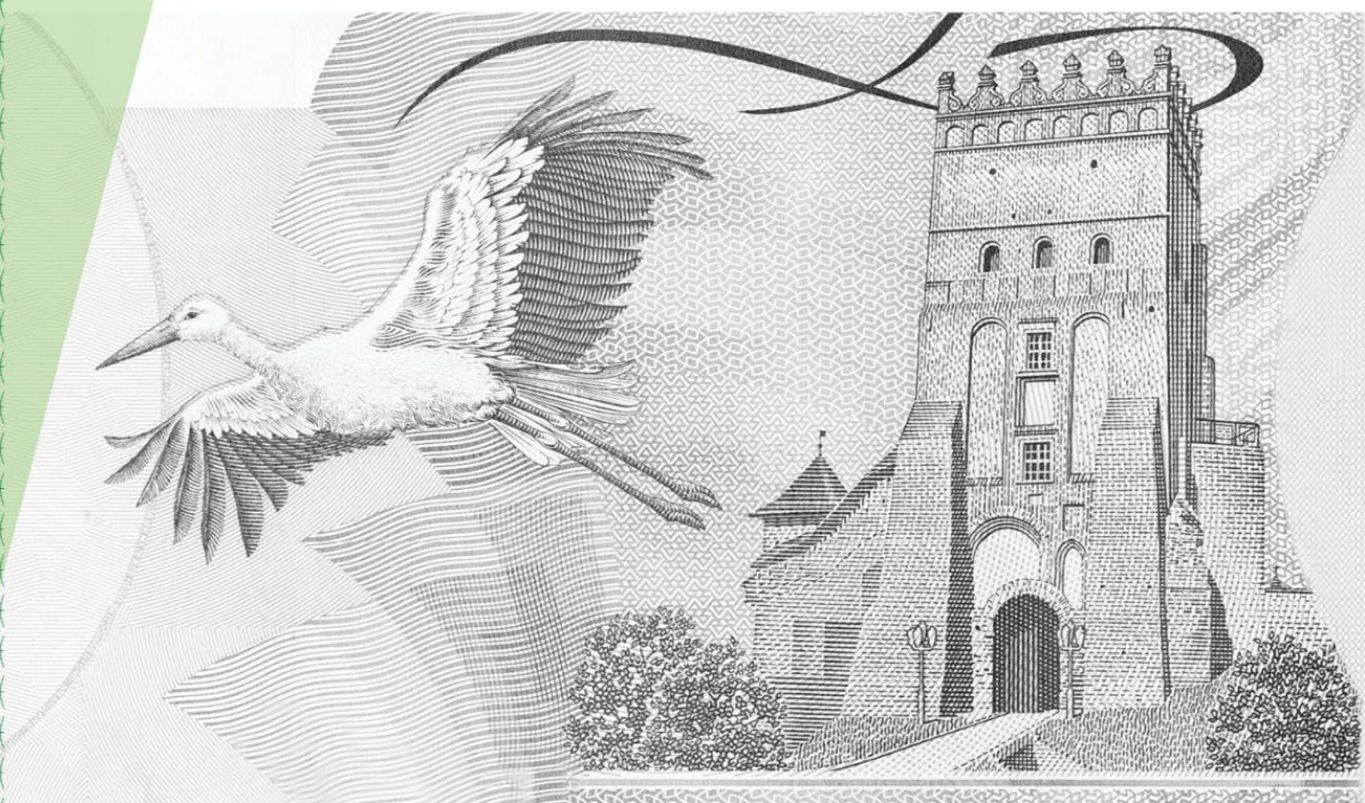




National Bank  
of Ukraine

# Macroeconomic and Monetary Review

October 2021



# Summary

## External Environment

Energy problems in Europe and Asia deepened in October 2021, fueling a surge in energy prices. This was primarily driven by demand outpacing supply as the global economy recovered actively in the previous period, as well as the tightening of environmental standards, and the drawdown of stocks. Except for China's market, steel and iron ore prices fluctuated within a narrow range: the decline in steel output in China was offset by weaker demand in Europe and a slight reduction in supply from small Australian companies. Wheat rose in price amid deteriorating expectations about the global harvest and stocks of grain, and because of the growth in fertilizer prices. Although global corn yields turned out as high as anticipated, corn prices stopped falling amid higher costs of energy-intensive drying. Rising energy prices and the global deficit of goods led to the deepest worsening of market inflation expectations in the U.S. in the past 16 years. At the same time, better-than-expected earnings reports, primarily in the technology and oil-and-gas sectors, supported the growth in global stock indices, including those of some EMs. However, EM currencies moved in mixed directions, driven primarily by country-specific factors.

## Inflation

Consumer inflation accelerated to 11% yoy in September 2021, primarily due to the rapid rise in the prices of raw foods and services. Core inflation edged higher (to 7.4% yoy), fueled by sustained consumer demand and higher production costs. However, inflationary pressures were restrained by a stronger hryvnia, the option for households to have a fixed-price annual gas contract, and a further drop in global sunflower oil prices from the peak levels seen in the spring of this year.

Producer price inflation inched lower (to 45.1% yoy) after global prices for metals-and-mining products decreased. At the same time, rising gas prices in Europe prevented producer price inflation from decelerating at a faster pace.

## Economic activity

The IKSO declined by 4.4% yoy in September. The bulk of this decrease came from agriculture, where production fell by 11.4% yoy due to a slower progress of maize harvesting this year. Industrial production also declined (by 0.7% yoy). Coal shortages and repairs at some metallurgical companies affected the metals, mining and energy sectors. With natural gas prices staying high, production in the chemical industry continued to decline. Meanwhile, higher exports of agricultural products and ferrous metals helped slow the decline in wholesale trade and improve freight turnover. Consumer and investment demand remained robust, although the growth in retail trade slowed (to 5.9% yoy) due to the high base effect. Construction continued to surge (10.1% yoy), driven in part by an increase in public spending on road infrastructure.

## Labor market

Wage growth slowed (in nominal terms to 18.7% yoy) due to the high base effect as last year the minimum wage was raised and [healthcare employees received wage supplements](#). In real terms, the increase in wages decelerated to 6.9% yoy, in part due to accelerated inflation.

## Fiscal sector

The state budget ran a deficit of UAH 29.8 billion in September. Expenditure growth accelerated (to 13.9% yoy) primarily due to higher spending on road infrastructure, other capital projects, culture, sports, and healthcare. Revenues continued to grow at a high pace (36% yoy), driven by increased imports, including energy, and high prices for natural resources. The budget deficit and debt repayments, including those on external commitments, which peaked in September, were mainly financed with previously accumulated funds and a partial use of the IMF's SDR allocation. Although budgets on every level of government recorded a deficit in September, the consolidated budget retained a moderate cumulative surplus in January–September.

## Balance of payments

The current account recorded a deficit of USD 0.5 billion in September due to scheduled interest payments on restructured Eurobonds and a widening of the merchandise trade deficit. However, the latter came out narrower than a year ago, as the growth in exports outstripped that in imports. Export growth accelerated significantly, fueled by record supplies of newly-harvested wheat and rapeseed, their prices having remained high. This outweighed a

slowdown in iron ore exports growth amid lower supplies and prices in September. The growth in imports sped up due to a further rise in prices and an increase in import volumes of natural gas, coal, and consumer and investment goods.

The significant financial account outflows (USD 1.8 billion) were driven by planned repayments on external public debt. At the same time, private sector inflows continued to come in. Those included FDI inflows, primarily in the form of reinvested earnings. Coupled with the current account deficit and repayments on IMF loans, the financial account capital outflows resulted in Ukraine's international reserves decreasing to USD 28.7 billion. However, they remain at a fairly high level, covering 3.8 months of future imports.

### **Monetary conditions and financial markets**

The NBU left its [key policy rate](#) unchanged in October, at 8.5%. This decision is in line with a decrease in inflation to 5% in late 2022 projected in the baseline scenario of the NBU's updated [macroeconomic forecast](#). Interbank market interest rates and primary market yields on hryvnia domestic government debt securities were little changed in October. Interest rates on bank loans and deposits did not follow a clear-cut trend in September. Weighted average rates on hryvnia deposits edged higher. In contrast, weighted average rates on loans inched lower, driven by supply and demand factors (businesses were actively taking out short-term loans to replenish their working capital, and these loans customarily offer lower interest rates).

Most of October was marked by appreciation pressure due to an ample export revenue from agricultural and the metals-and-mining businesses. The hryvnia strengthened against the U.S. dollar by 1.3% for the month, exchange rate data show. The NBU made about USD 0.7 billion in net FX purchases.

*The Macroeconomic and Monetary Review is a translation of the original report in Ukrainian. If there are any discrepancies between the original document and its English translation, readers should consider the Ukrainian version of the report as correct.*