



National Bank
of Ukraine

Monthly Macroeconomic and Monetary Review

October 2022

**Monetary Policy and Economic Analysis
Department**



Summary

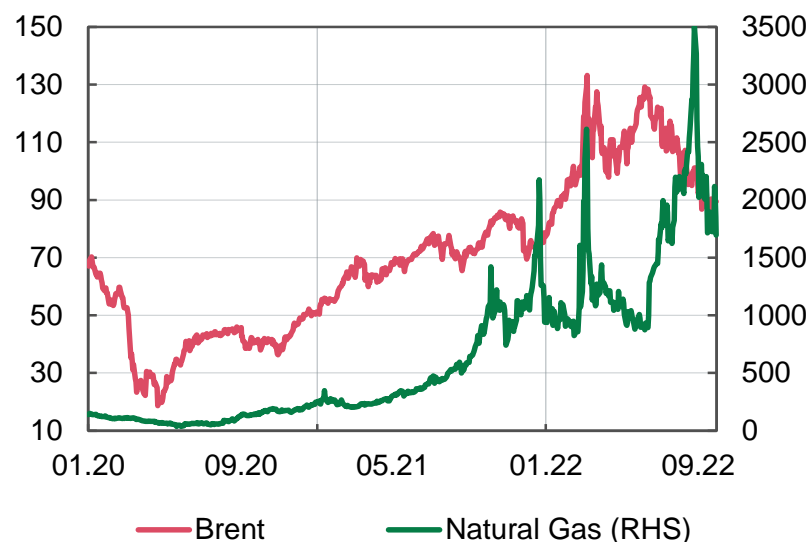
- **Global inflation remained significant** under the influence of still high energy prices, which slowed the world economy against the backdrop of sluggish demand. Accordingly, **leading central banks continue to tighten monetary policy decisively**, although some EM countries are already ending this cycle
- **Consumer inflation in Ukraine is accelerating** (according to NBU estimates based on web scraping, to 24.4% yoy in September from 23.8% yoy in August). The main reasons for the increase in inflationary pressure are the consequences of war and Russian occupation, temporary occupation of certain territories, and the pass-through effects of the hryvnia exchange rate correction
- **Economic activity has picked up, which is partly due to seasonality.** Harvesting of early crops has been completed, the yield of which is expected to be lower than last year. The operation of the grain corridor, through which other agricultural products are exported too, supports transport and the food industry and will contribute to providing farmers with financial resources for the coming year. However, logistical problems, especially for metallurgy, the destruction of capacities and the decrease in real incomes of households hold back the recovery
- **The seasonal economic recovery supported the increased demand for labor**, as a result, the number of applicants for one vacancy slightly decreased. However, $\frac{3}{4}$ of the surveyed Ukrainians still declare a decrease in income compared to the pre-war level. Migration remains stable both abroad and within Ukraine
- In September, **the state budget deficit increased significantly**, in particular, resulting from sizable expenditures. The deficit was **primarily covered mostly by gov't funds accumulated in the previous month sourced from international aid**, and monetary financing. Demand for government domestic securities remained weak
- **The launch of the grain corridor contributed to the narrowing of the goods trade deficit**, although the latter remained wider than the pre-war level. Higher amounts of international financial aid ensured the increase of the current account surplus and capital inflows under the financial account. As a result, gross international reserves grew for the first time since March and reached USD 25.4 bn as of the end of August
- **The attractiveness of hryvnia resources continues to grow** in response to the key policy rate hike in June and expectations for it to remain at the current level for a long period. Exchange rate fluctuations on the FX cash market intensified in September. This was mainly caused by the deterioration in the information environment on the background of aggressive statements and terrorist actions of the RF in the conditions of FX cash deficit



External Environment

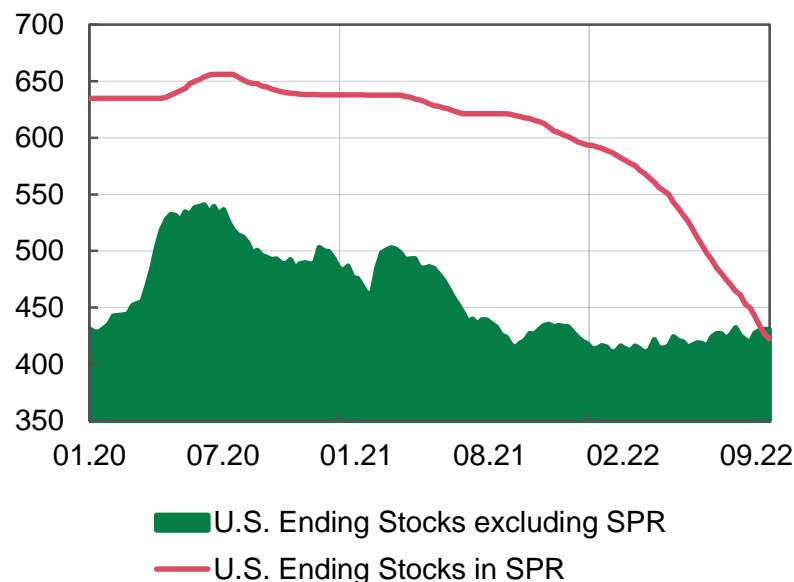
World energy prices slowly decreased under the influence of weakening demand

Crude oil (Brent, USD/bbl) and natural gas (TTF, USD/kcm) world prices



Source: Refinitiv.

U.S. ending stocks of crude oil, m bbl

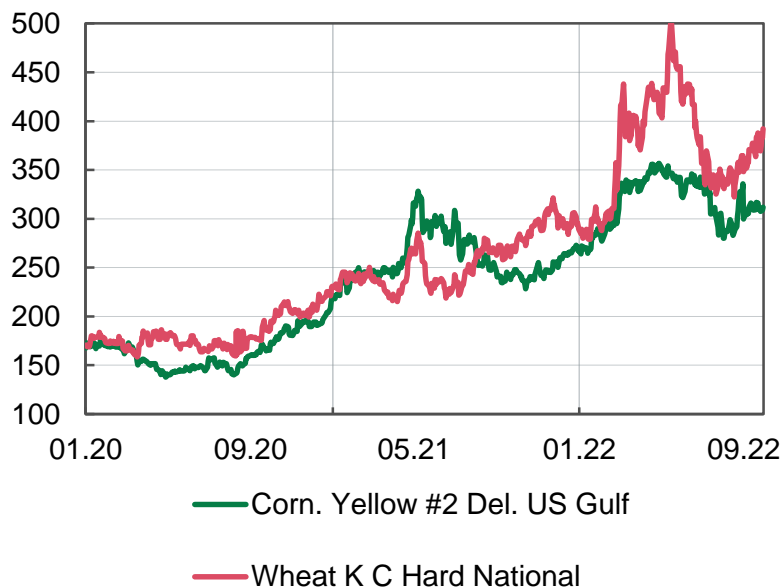


Source: : U.S. Energy Information Administration.

- World crude oil prices are falling due to sluggish demand amid a slowdown in the global economy
- European natural gas prices after reaching another record high at the end of August, continued to slowly decline thanks to the early accumulation of reserves by the EU countries, sufficient for the heating season. However, prices remained quite sensitive to any changes. Thus, damage to the threads of the NS1 and NS2 gas pipelines led to a temporary jump in prices at the end of the month

Grain prices rose due to adverse weather conditions, while steel and ore prices fell due to weaker global economic activity

Wheat and corn world prices, USD/MT



Source: Refinitiv.

Steel and iron ore world prices, USD/MT

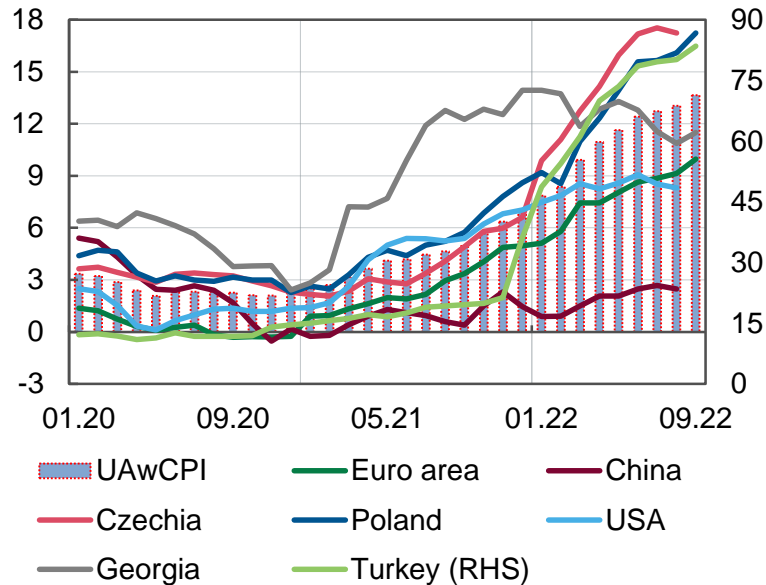


Source: Refinitiv.

- World grain prices, in particular for wheat and corn, resumed growth despite the effect of the grain corridor from Ukraine and the appearance of a new crop on the market. The main reason for such dynamics was a significant deterioration of expectations regarding the volume and quality of the harvest, primarily due to the negative impact of weather conditions
- Instead, global steel and iron ore prices continued to decline, primarily due to further weakening of business activity in most regions of the world

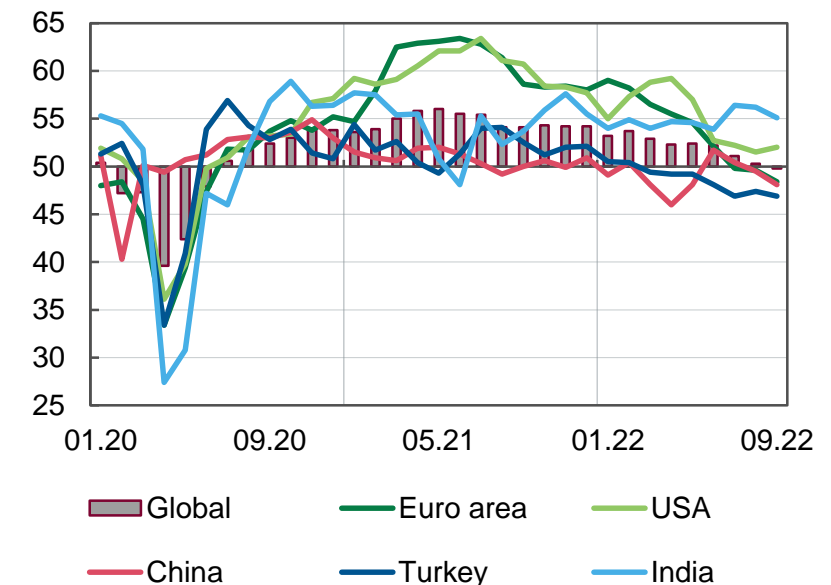
Global inflation was fueled by energy shocks, which slowed the world economy against the backdrop of sluggish demand

CPI in selected countries and Weighted Average of Ukraine's MTP countries' CPI (UAWCPI), % yoy



Source: National statistical offices, NBU staff estimates.

Manufacturing PMI: global and selected countries

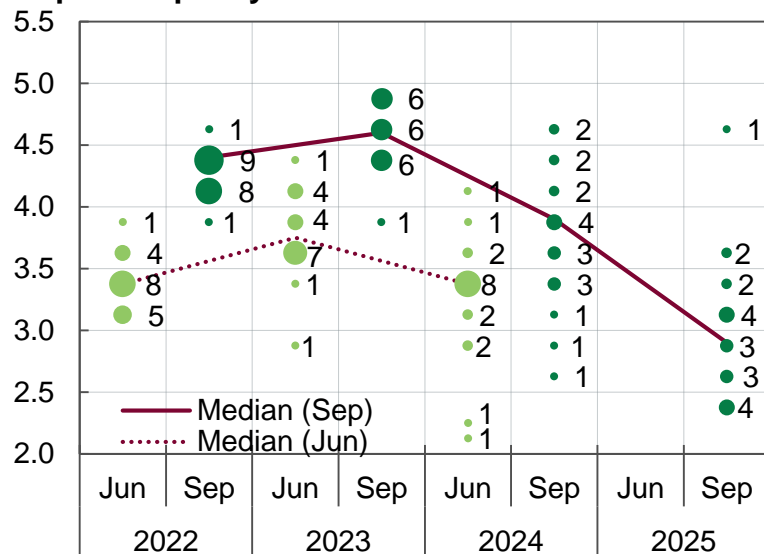


Source: S&P Global, J.P.Morgan.

- Despite the slowdown in inflation in some countries, in particular in the U.S., its further acceleration in the euro area and Turkey led to a further increase in inflationary pressure from the MTP countries of Ukraine in September
- High energy prices remained the main factor in the growth of inflation in the world, as well as the suppression of demand and the slowdown in the growth rate of world production
- Disrupted global supply chains and a low level of business confidence in the context of the deteriorating geopolitical situation were additional factors of such dynamics

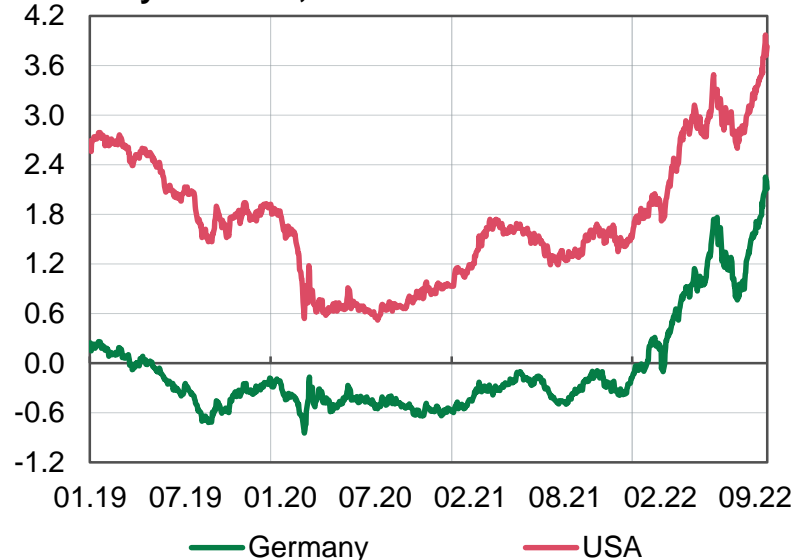
Major CBs are forcefully tightening monetary policy in order to reduce inflationary pressure

The number of FOMC members that expect the respective policy rate



Source: Fed.

Market yields on 10-year government bonds of Germany and USA, %

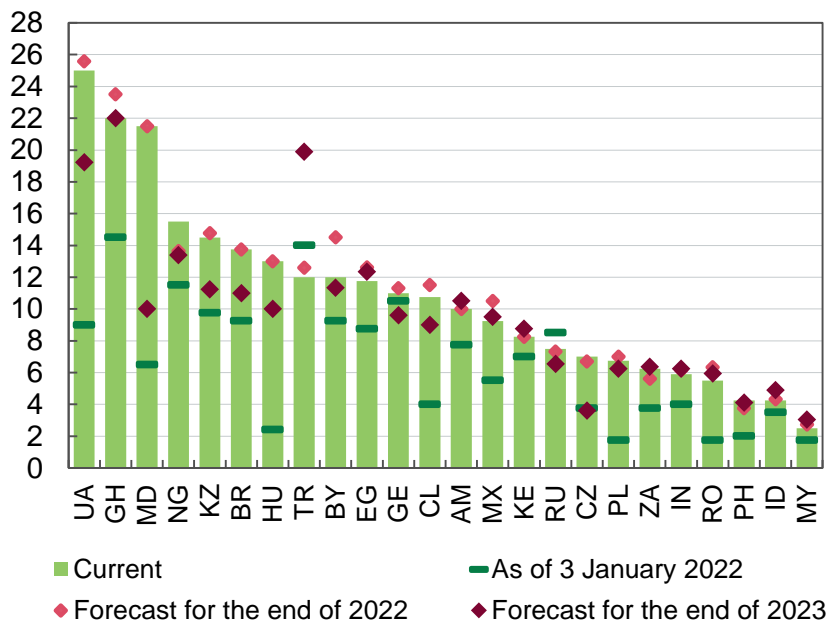


Source: Refinitiv.

- The Fed** raised the federal funds target range by 75 bps for the third time in a row, to 3-3.25%, expects further hikes (probably at a slower pace) and will continue to reduce its assets. The rate is forecast at 4.4% and 4.6% at the end of 2022 and 2023
- The ECB** will continue raising rates 'over the next several meetings'. Policymakers have signaled that they are leaning towards a significant move in October (probably 75 bps). The tightening cycle may end, presumably, at 2.25-2.5%
- The Bank of England** raised the interest rate by 50 bps to 2.25% (highest since 2008) and signaled further tightening. The Bank had to urgently intervene into the bond market to deal with liquidity due to increased turbulence on financial markets caused by the reaction of market participants to the proposed new financial plan of the government. At the same time, the target of stock reduction of purchased UK government bonds remains unchanged, although sales operations are postponed until the end of October

By contrast, the monetary policy tightening cycles of some EM CBs are coming to an end

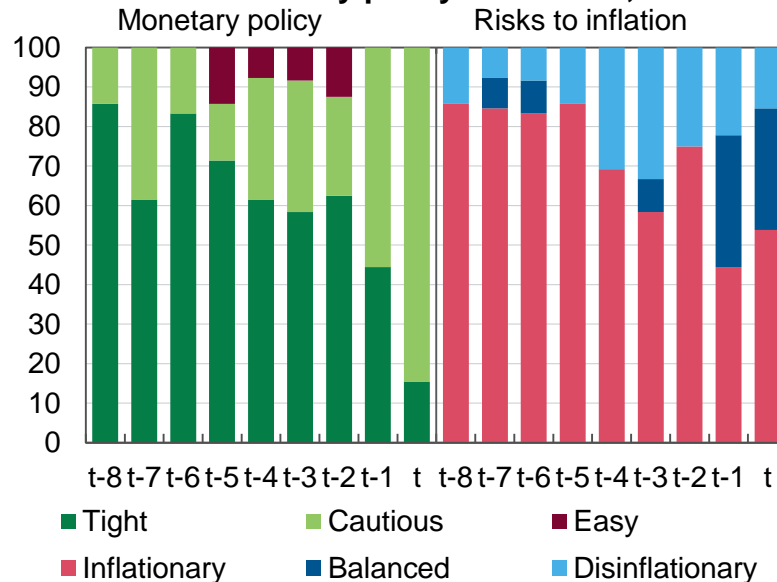
Key policy rates in selected EM countries, %



Source: official web pages of central banks, Focus Economics, Trading Economics, as of 03.10.22.

- Tightening cycles appear to have come to an end in Brazil, Hungary, Poland and Czechia, but mounting downward pressure on these countries' currencies could prompt the CBs to resume rate hikes
- CBs of Russia and Turkey (the latter unexpectedly cut rate by 100 bps for the second consecutive time) continued monetary policy easing. The CB of China kept rates unchanged while signaling it has room for future cuts
- More and more EM CBs admit that they may take a cautious position in the short term in order to analyze the impact of the conducted tightening on the macroeconomic situation in the country

Balance of CBs' sentiments according to press releases on monetary policy decisions*, % of CBs



* t – meeting in Sep 2022, t-1 – Aug 2022, t-2 – Jul 2022, t-3 – Jun 2022, t-4 – May 2022, t-5 – Apr 2022, t-6 – Mar 2022, t-7 – Feb 2022, t-8 – Jan 2022

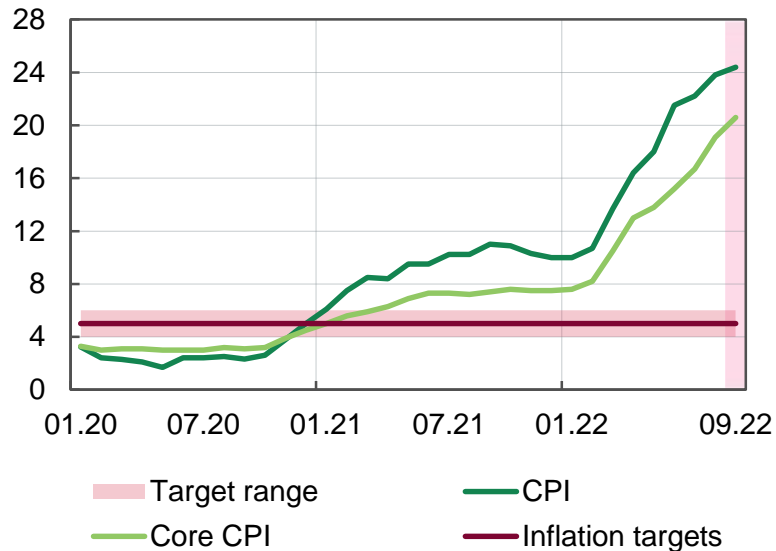
Source: official web pages of central banks.



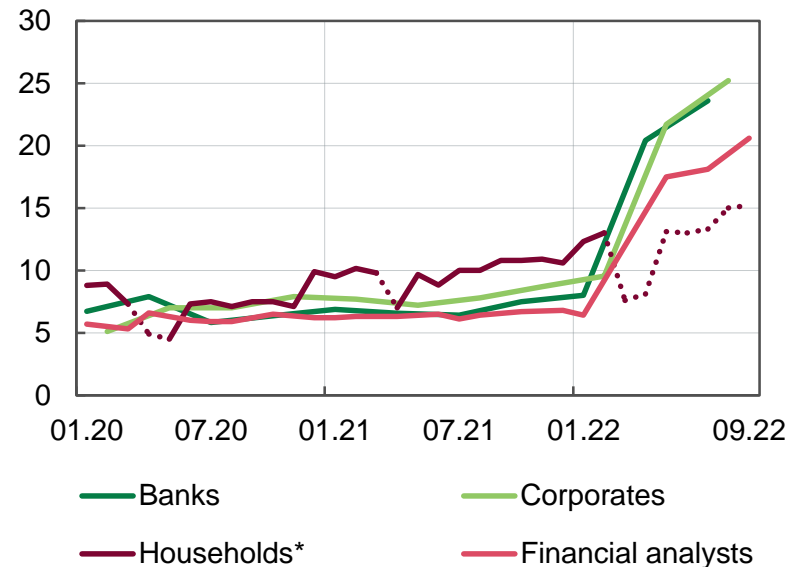
Ukraine: Inflation

Inflationary pressure in Ukraine continues to intensify

Inflation* and inflation targets, % yoy



Inflation expectations for the next 12 months, %



* Data for September reflects nowcast.
Source: SSSU, NBU staff estimates.

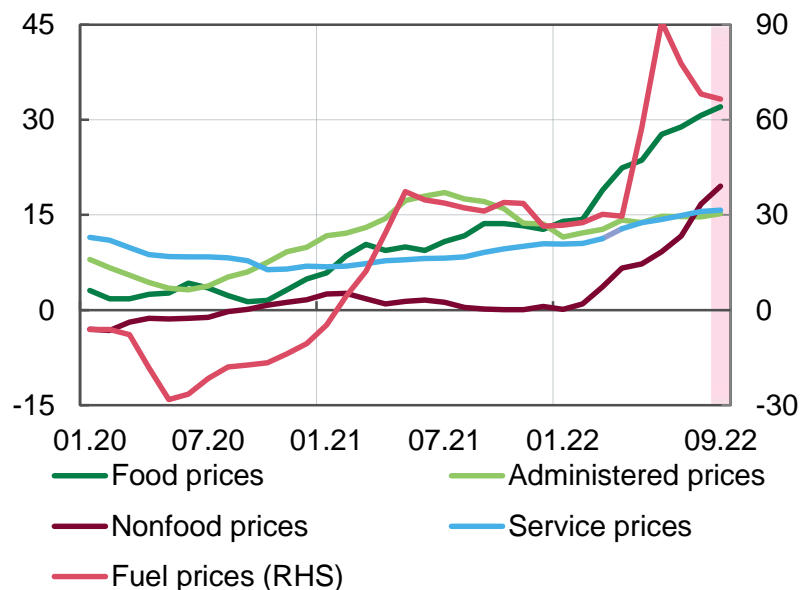
* The dotted line indicates a change in the method of survey for a telephone interview.
Source: NBU, GfK Ukraine, Info Sapiens.

- Inflation continued to accelerate due to the consequences of Russia's full-scale war against Ukraine, including the disruption of supply chains, the destruction of production facilities, the reduction of the supply of goods and services, and the increase in business costs
- Another factor was the pass-through effect that the adjustment of the official hryvnia-to-dollar exchange rate had on prices. The NBU adjusted the exchange rate in July to preserve the stability of the Ukrainian economy
- Price growth has been restrained by the fixing of natural gas and heating prices and a partial rerouting of supply chains, in particular, oil products

Inflationary expectations continue to deteriorate

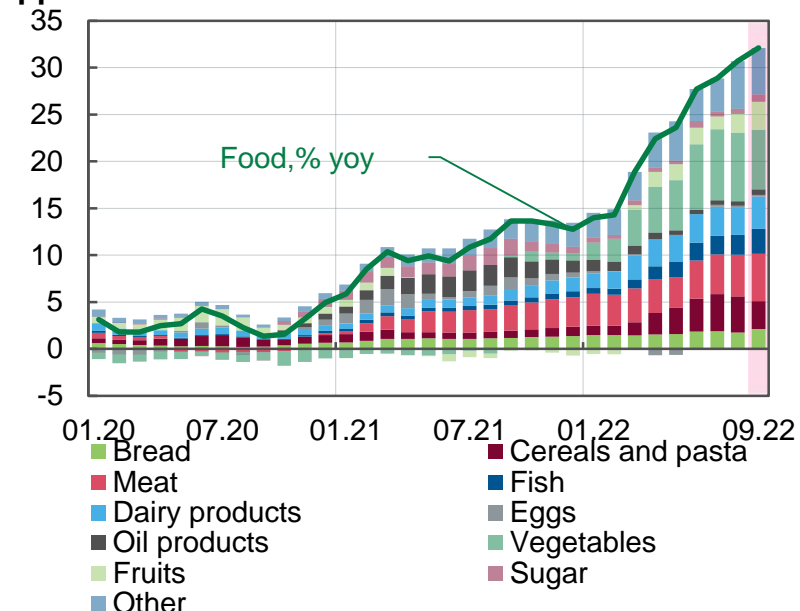
Growth of production costs remains the main factor, the effects of the adjustment of the hryvnia exchange rate is the additional one

Selected CPI components*, % yoy



* Data for September reflects nowcast.
Source: SSSU, NBU staff estimates.

Contributions to the annual change in food prices*, pp

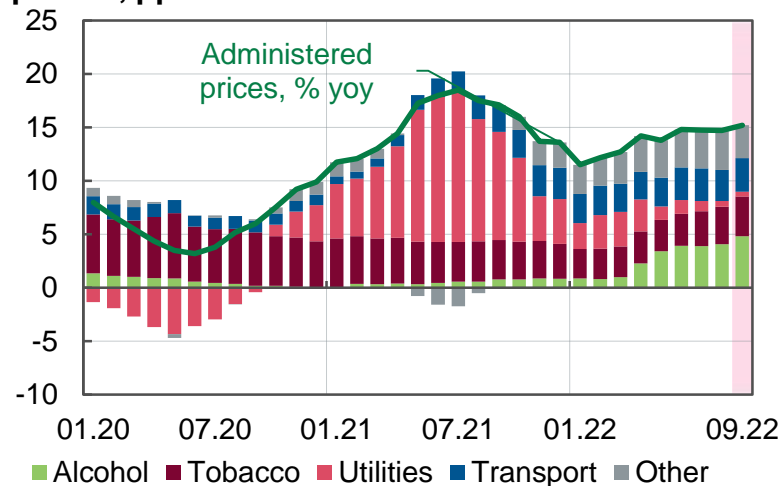


* Data for September reflects nowcast.
Source: SSSU, NBU staff estimates.

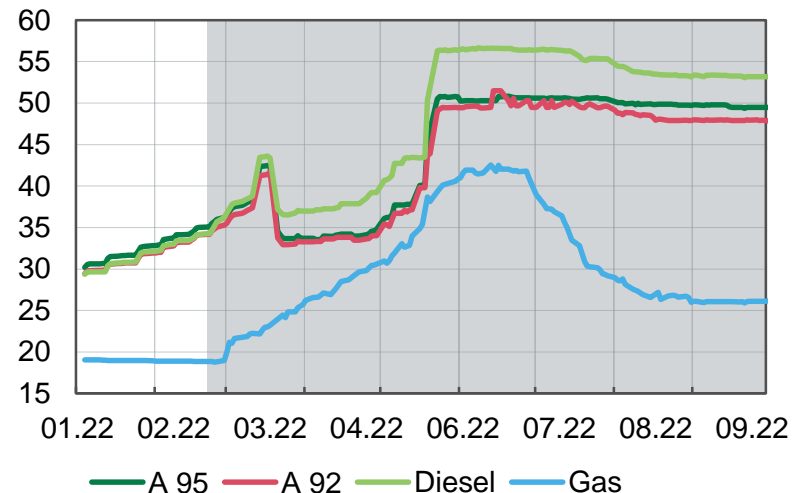
- The July adjustment of the hryvnia exchange rate, as well as the limited supply of new batches of goods, significant logistics costs, the depletion of stocks, and the worsening of exchange rate expectations led to the acceleration of inflation
- Prices for some foods also grew faster on the back of rising costs for their production and supply (most processed foods), limited supply (meat products), and increasing import prices (rice, citrus fruits, bananas)
- Instead, inflation was restrained by an increase in the supply of domestic cereals and fuel

Fixed utility tariffs and the gradual improvement of logistics, in particular for oil products, restrain inflation

Contributions to the annual change in administered prices*, pp



Fuel prices, UAH / L



* Data for September reflects nowcast.
Source: SSSU, NBU staff estimates.

Source: minfin.com.ua, NBU calculations.

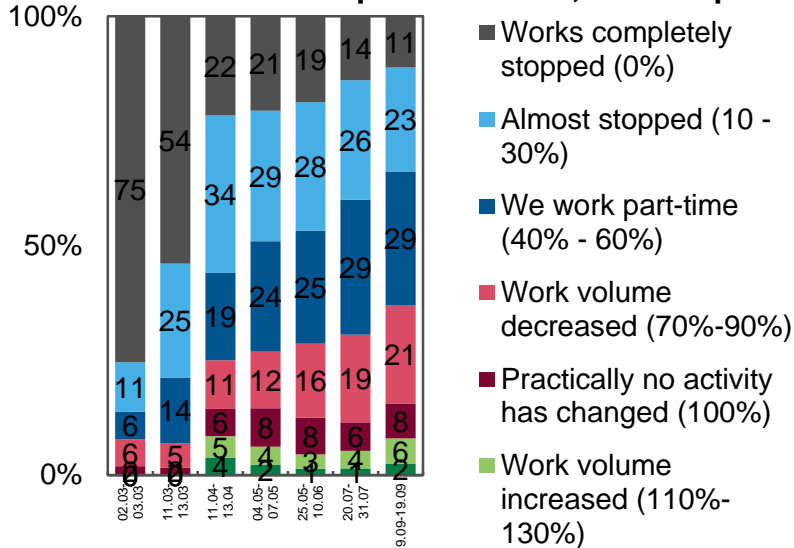
- Due to lower oil prices and the normalization of logistics, the slowdown in fuel price growth continued
- Utility tariffs have hardly changed in annual terms. At the same time, the prices of alcoholic beverages grew faster, primarily due to the increase in production costs for energy, raw materials, and bottles. The growth in prices for tobacco products also accelerated



Ukraine: Economic activity

Economic activity picked up, but this partially may reflect seasonality

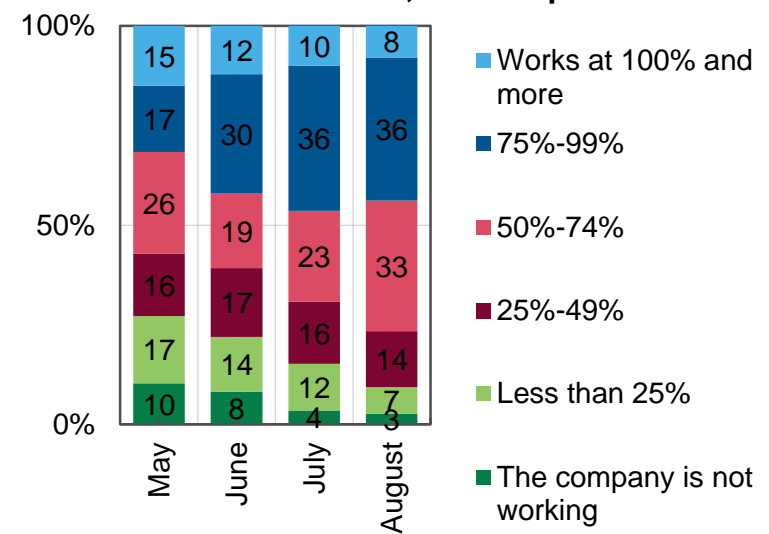
State of business compared to 23.02, % of responses



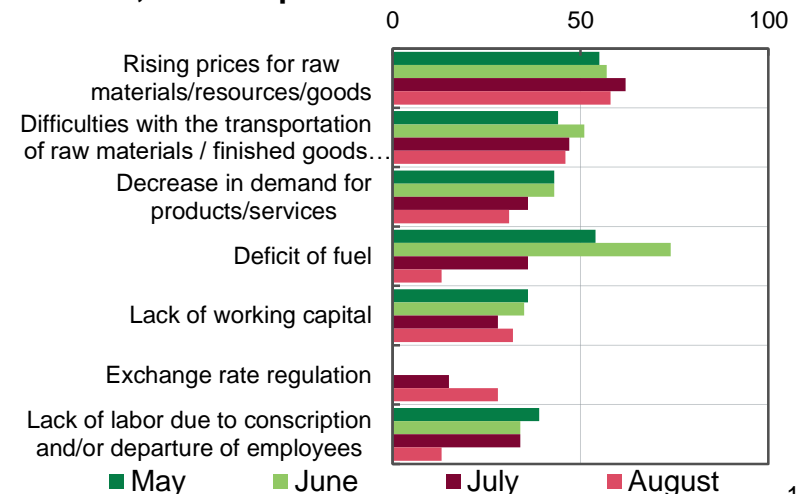
Source: Advanter.

- A survey of SMEs conducted by Advanter in September showed the lowest share of business in shutdown since the beginning of the full-scale war - 11%. At the same time, the share of those who increased production grew to 8%
- The [IER study](#) also shows a decrease in those businesses that are not operating or are operating at less than 50% capacity
- Production costs growth and logistics remain [main problems of business](#). At the same time, estimates of fuel and labor shortages decreased

Current state of business, % of responses



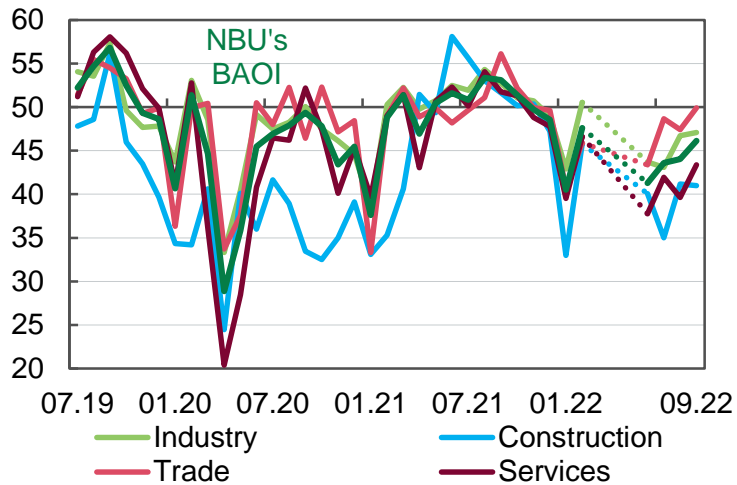
The most important problems for the surveyed business, % of responses



Source: IER.

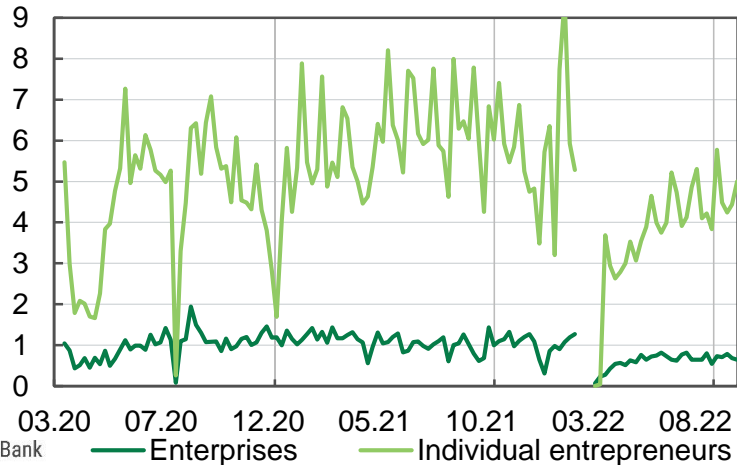
This is evidenced by a number of high-frequency indicators

NBU's business activity outlook index, p



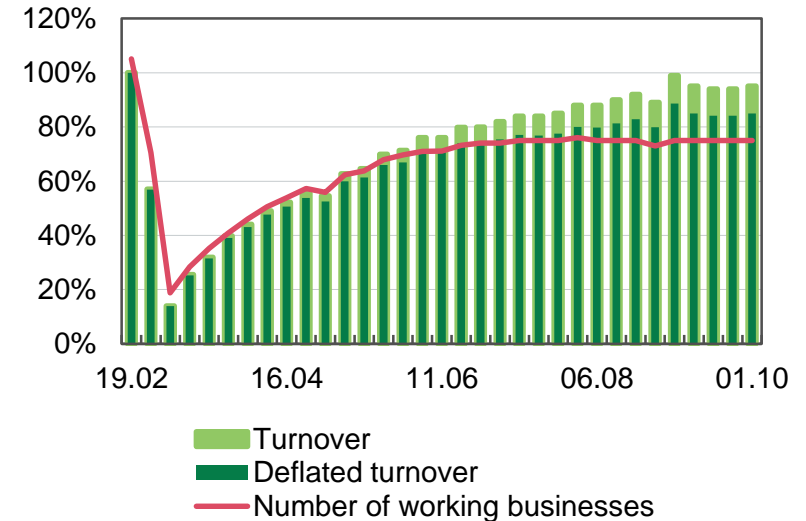
* Survey was not conducted from March to May 2022.
 Source: NBU.

New business registrations, thousands



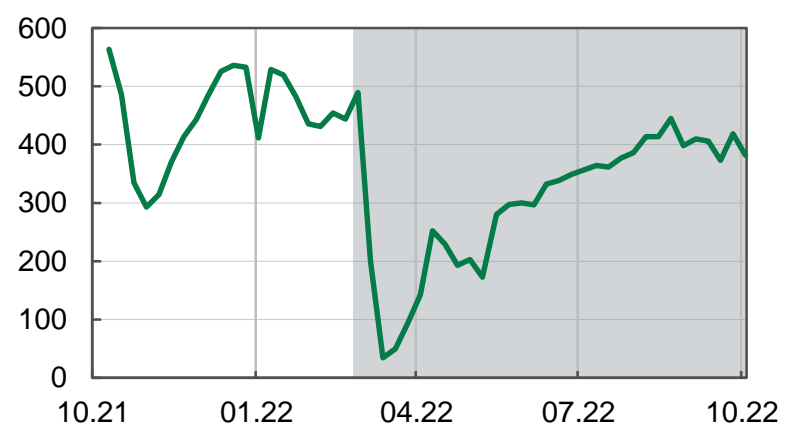
Source: opendatabot.ua.

Performance indicators of the restaurant business, %



Source: SSSU, Poster, NBU staff estimates.

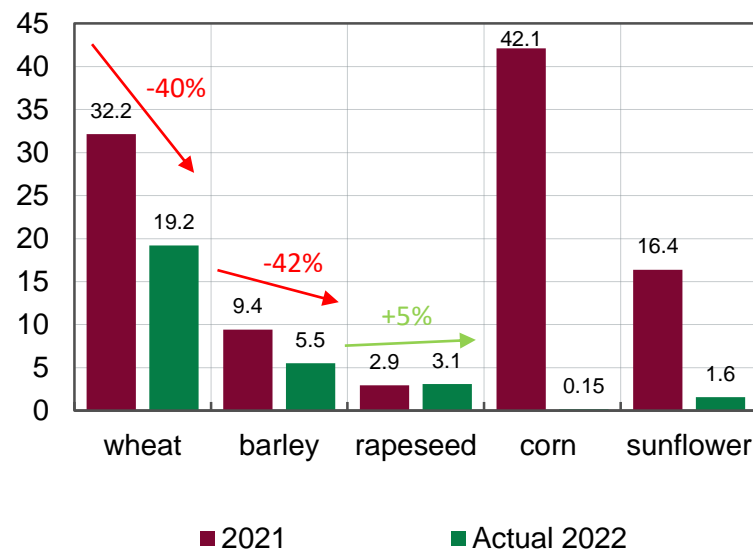
Number of UZ tickets sold per week, thousands



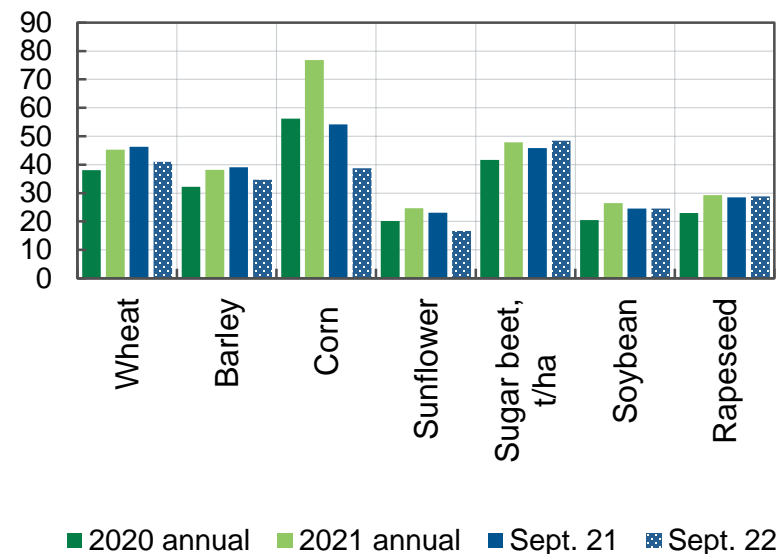
Source: UZ.

Economic activity is strongly supported by agricultural work, although this year's harvest is significantly lower than last year

Harvest volumes of early crops as of 30.09.22, million tons



Yield of main crops, quintal/ha



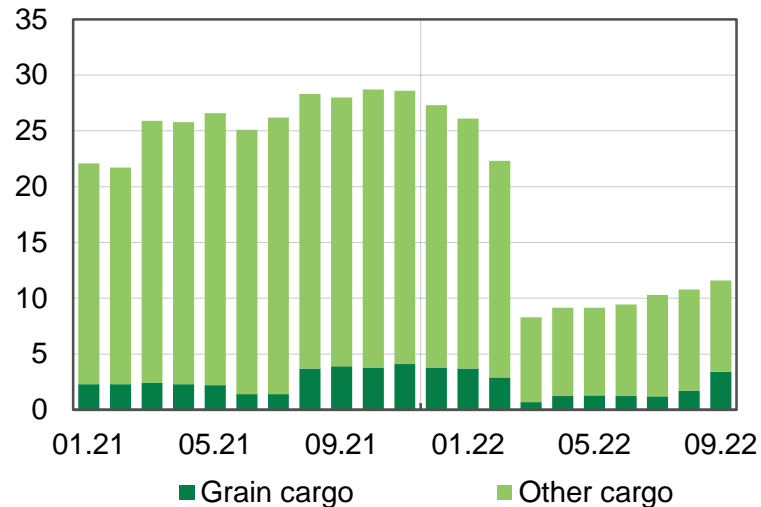
Source: MinAgro, NBU staff estimates.

Source: MinAgro, SSSU, NBU staff estimates.

- Harvesting of early cereals and rapeseed is almost finished. The harvest of cereals and legumes is currently 45% lower than last year, mainly due to smaller harvesting areas
- Harvesting of corn, sunflower, soybeans, and sugar beet has begun. [Harvesting is delayed](#) due to prolonged rainfall
- A decrease in the supply of [onions](#) and [seasonal fruits](#) is expected due to rainy weather; [shortage of greenhouse products](#) due to cold weather and shortage of a number of vegetables due to lack of vegetable storage facilities. Instead, it is predicted that the harvest of [buckwheat](#) and [potatoes](#) will be sufficient to meet domestic needs
- Stockbreeding continues to revive activity against the backdrop of a surplus of fodder. Some enterprises are increasing the [herd of pigs](#), and beekeepers expect a high [honey harvest](#)

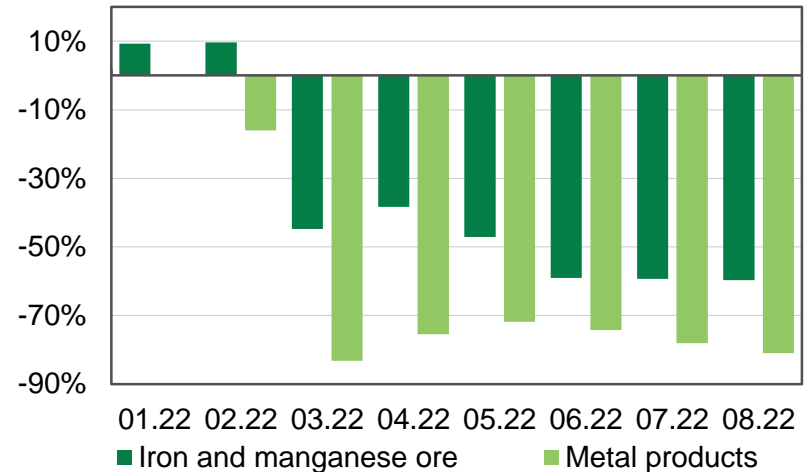
Thanks to the transportation of crops, freight transportation has become more active. But problems with logistics hold back the recovery of metallurgy

Freight transportation by railway, million tons



Source : SSSU, Rail.insider, UZ.

Dynamics of metallurgical products transportation for export by UZ, % y/y



Source: GMK Center, UZ.

- [The volume of grain transportation by railway](#) in September exceeded the results of August: [queues of grain wagons decreased by 37%](#), and the average daily transfer of wagons at the border increased by 23%. However, the further growth of cargo flow on the western border is restrained by the [lack of rolling stock in the EU](#)
- Despite the resumption of operations of some ports in August, freight transportation by motor vehicles (primarily grain trucks and fuel tankers) [has not lost its relevance](#)
- There are still problems with the export of metallurgical products (both ore and finished products). As a result, some enterprises operate at minimum capacity ([15% of the pre-war level](#), mining - 25%). However, other enterprises are establishing new logistics routes and mastering new types of products (in particular, pipe companies are working for the growing oil and gas sector and suppliers of semi-finished products to European companies).

Operation of the grain corridor also supports restoration of the food industry, and reorganization of agro-logistics supports construction

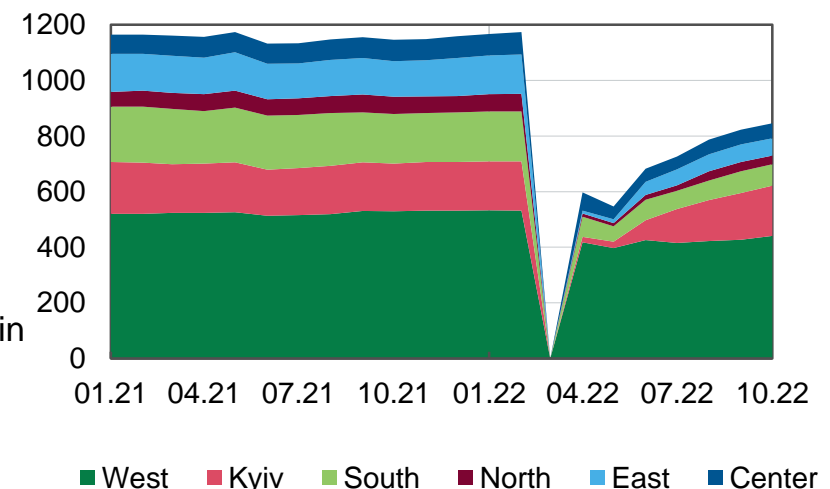
Thanks to the operation of the grain corridor (despite its name, other agricultural products are also exported), the production of sunflower oil is being revived; part of the food industry producers managed to reorient for exports and increase production volumes

- The recovery of [sunflower oil production](#) accelerated in September
- The [sugar-making season has started](#) at a number of enterprises; individual players are [planning a full launch of capacities](#)
- Individual food producers are [restarting after relocation](#) to safe regions, [investing in capacity expansion](#) and ramping up production. Additional factors were [access to foreign markets](#) and improving domestic competitiveness compare to imported products
- In particular, the [increase in production by cheese makers](#) and [butter producers](#) continued against the background of a decrease in imports, a revival of domestic demand and an increase in [exports](#)

New facilities for storing agricultural products are being built, the infrastructure is being restored, but the housing market continues to stagnate

- The construction and commissioning of new [grain terminals](#), [bread factories](#), [cow sheds](#) has accelerated, primarily in the western and central regions
- The industry is supported by numerous [repairs](#) and [reconstruction](#) of destroyed infrastructure, in particular in the [energy](#) sector; individual investors in infrastructure projects are [resuming construction work](#)
- The number of deals on the [primary real estate market](#) is about 10% of pre-war levels. Some developers note a revival of demand in September

Number of new buildings for sale



Source: LUN City.

Intensified gas production supports engineering, and sowing supports the chemical industry

Domestic gas extraction is being activated after the deoccupation of Kharkiv oblast; 4 wells were launched in September, state investments in the sector are growing

- In September, Ukrgezvydobuvannya launched 4 gas wells with a total capacity of 485,000 cubic meters of gas per day
- It is planned to further [increase production](#) in the liberated territories of Kharkiv region; investments in the sector are growing

Engineering is revitalizing due to the increase in demand for equipment for the mining and oil and gas industries, as well as other special equipment

- In September, some [manufacturers of mining equipment](#) expanded production; investments in the [production of equipment](#) for the oil and gas industry picked up
- Manufacturers of special equipment increased the shipment of finished machines, ensuring increased demand from the [agricultural sector](#), [gas station networks](#), [utility companies](#) and [rescuers](#)
- The construction of granaries supports manufacturers of grain [storage and drying equipment](#)

In the chemical industry, there is a revival against the background of the needs of sowing and improvement of export opportunities

- In September, some manufacturers resumed fertilizer production. The situation in the industry improved against the background of seasonal demand revival

The situation in pharmaceutical production remains favorable primarily due to increased military demand; the activity of light industry enterprises is intensifying

- Some pharmaceutical companies are introducing [new production lines](#) and [investing in the construction](#) of new production facilities
- Light industry enterprises are opening in the west of the country ([tailoring](#), [production of furniture](#), [packaging materials](#), etc.)

Electricity exports to Europe are increasing, de-occupation supports trade

The energy system works stably despite the destruction of the infrastructure as a result of terrorist actions of the Russian Federation; however, electricity production decreased in September due to the shutdown of the ZNPP

- Ukraine [increased electricity exports](#) to Europe at night
- In September, Energoatom and Ukrhydroenergo continued to [export electricity to Moldova](#) and plan to [increase exports to Poland](#) from 1 October
- Since the beginning of September, ZNPP (about 20% of all generating capacities of Ukraine) has [practically not supplied](#) electricity to Ukrainian consumers
- Against the backdrop of a seasonal increase in electricity consumption, Ukrenergo reported an [increase in the number of emergency repairs](#) at TPP power units (currently, the total capacity of power units under repair is twice the 2021 figure)
- Despite the [increase in rocket attacks](#) on the energy infrastructure this month, the system is working stably, [preparations for the heating season](#) are underway, [infrastructure repairs](#) are being carried out, and [gas](#) and [electricity](#) supply is being restored in the de-occupied territories

Trade picked up in September, in particular thanks to the de-occupation of Kharkiv oblast; the trend of increasing trade and activity of shopping malls in the west of the country and decreasing in the frontline regions continues

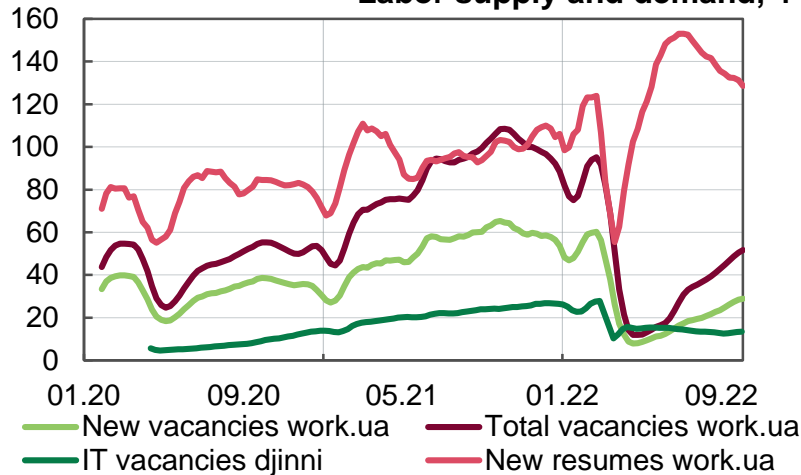
- More and more shops are [resuming work](#) in Kharkiv and the region after de-occupation
- The [development of retail](#) and [shopping centers](#) in the west continues; trade networks continue to [resume work](#) in the de-occupied Kyiv region and in the capital. On the other hand, in the frontline regions, trade is restrained by the departure of the population, and individual shops and chains [reduce their activity](#) due to constant shelling
- Despite the war, the pick-up in trade in September was also influenced by typical seasonal factors such as [back-to-school sales](#) and [preparations for the heating season](#)



Ukraine: Labor market

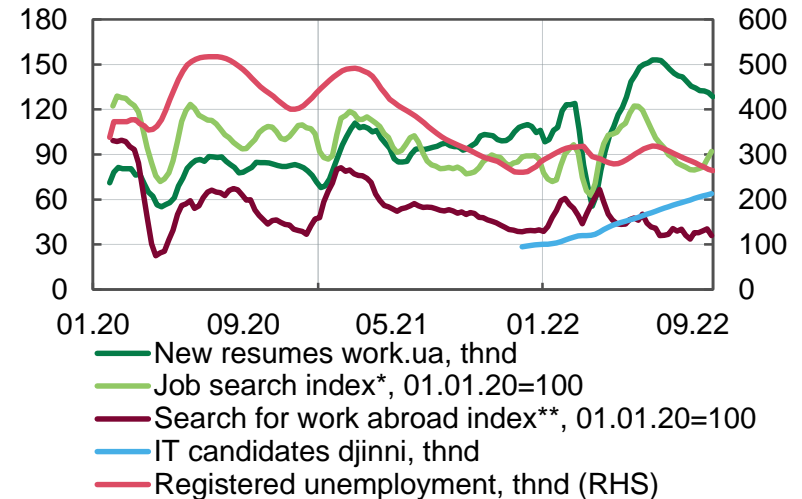
Seasonal increase of economic activity supports further growth of labor demand...

Labor supply and demand, 4-weeks moving average



Source: work.ua, Opendatabot, NBU staff estimates.

- Growth of new CVs slowed, while for job offers it continues. However, this can be explained by seasonality
- On OLX Jobs in September, the number of vacancies reached 54% of the pre-war level. The most vacancies are in Kyiv (40%) and Lviv (roboota.ua), the number of online vacancies is increasing
- 80% of job-seeking respondents surveyed by Gradus are willing to work outside of their specialty. Similar results are reported by grc.ua (71%)
- 2/3 of respondents are ready to lower their desired salary in case of difficulties with employment, according to grc.ua



* Includes job search queries in Ukrainian and Russian. ** Includes job search requests in Poland, the Czech Republic, Russia and Germany in Ukrainian and Russian from Ukraine.

Source: work.ua, Opendatabot, Google Trends, NBU staff estimates.

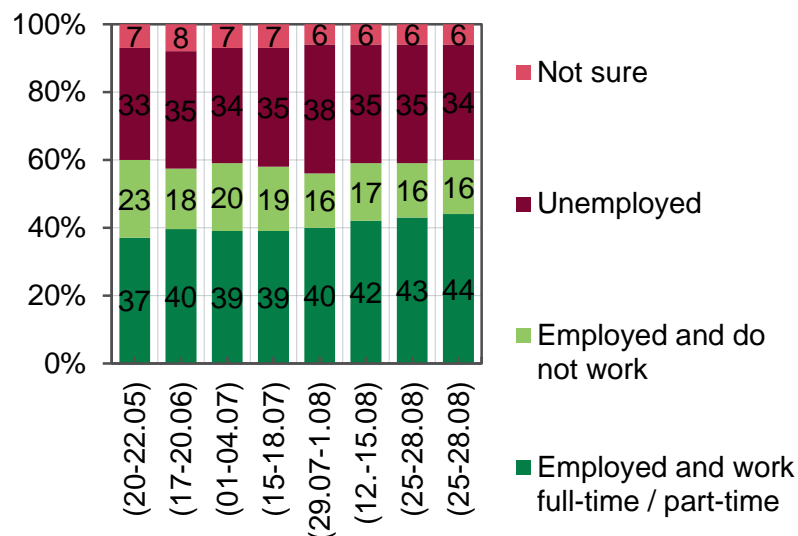
Number of applicants for one vacancy, persons



Source: SESU, NBU staff estimates.

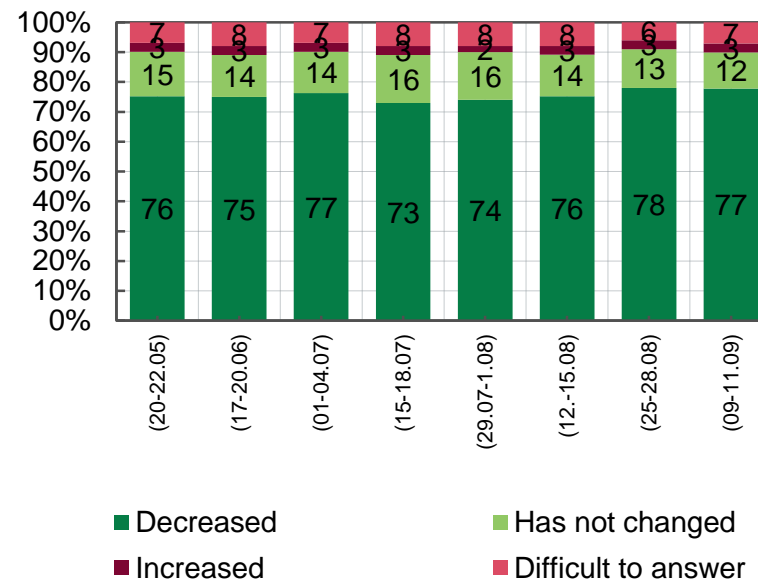
...but there is currently no significant increase in employment, and incomes of most Ukrainians have decreased

Employment status, % responses



Source: [Gradus](#).

Changes in income, % of responses

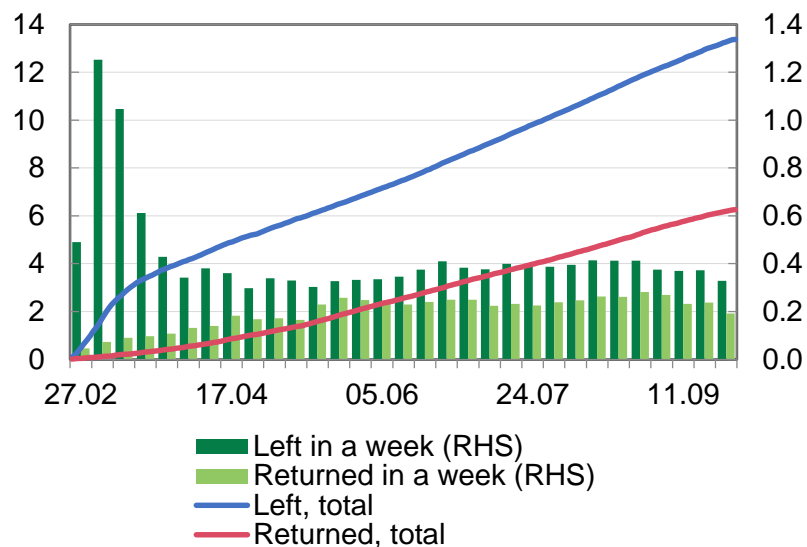


Source: [Gradus](#).

- According to the [Gradus surveys](#), the share of the unemployed has remained practically unchanged since May – about 34% of respondents; the number of working people is growing moderately at the expense of those who had a job but did not work. However, the share of those who have lost their jobs since the full-scale invasion has remained virtually unchanged at around 30% unemployed from May to September
- According to the [IER](#) survey, the number of employees at enterprises will stabilize. According to the [EBA survey](#), the majority of enterprises (53%) plan to keep the number of employees unchanged in 2023. There are more plans to reduce staff (28%) than to increase (19%)
- As of August 2022, 70% of Ukrainians said that they had suffered financially due to the full-scale war of the Russian Federation against Ukraine, and about 33% had lost their jobs, according to the [KIIS survey](#). Lack of funds remains the greatest problem ([Gradus survey](#))

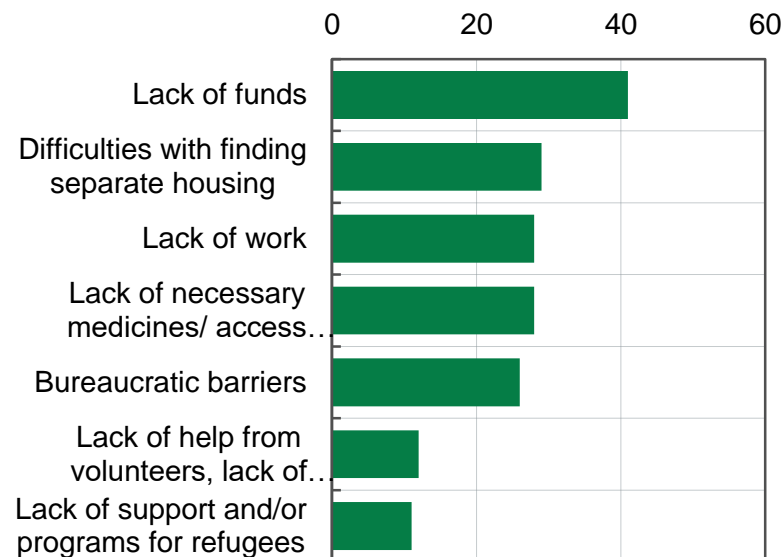
Migration both within Ukraine and abroad remains significant

The number of citizens who crossed the border of Ukraine, millions of people



Source: [UNHCR](#).

Ukrainians in Europe: difficulties abroad



Source: [4service.group](#).

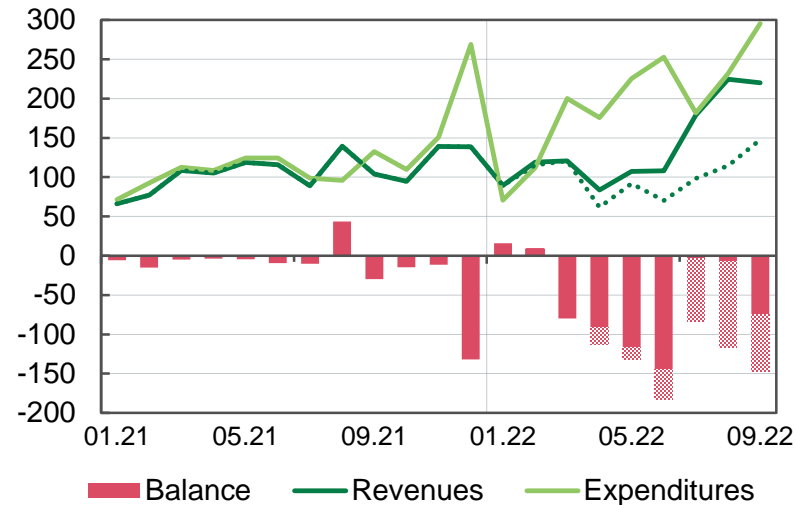
- According to [UN data](#), as of September 30, 2022, 13.4 million people left Ukraine, and 6.3 million people returned. Part of this movement had a pendulum character - some returned to Ukraine to visit relatives, take things, receive documents, etc. Currently, 4.2 million people from those who remain outside Ukraine have received the status of temporary protection
- According to the [IOM](#), the number of IDPs is almost 7 million people (24.08.2022), of which 3.2 million people are [registered as IDPs](#) (18.09.22)
- Lack of funds, difficulties in finding housing and work remain the main problems of migrants both abroad and inside Ukraine, but in view of the preservation of security risks, an increase in number of returns is currently unlikely - [only 13%](#) are going to return to Ukraine within the next 3 months



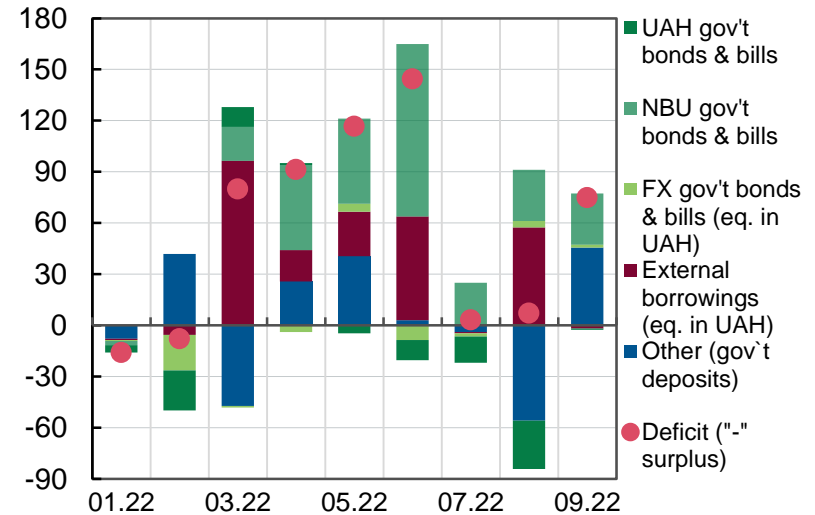
Ukraine: Fiscal sector

In September, the deficit increased rapidly due to a build-up in expenditures

Main State budget indicators*



State budget balance financing**, UAH bn



* Dotted and patterned fillings show relevant indicators excluding grants.

** Debt transactions are net borrowings.

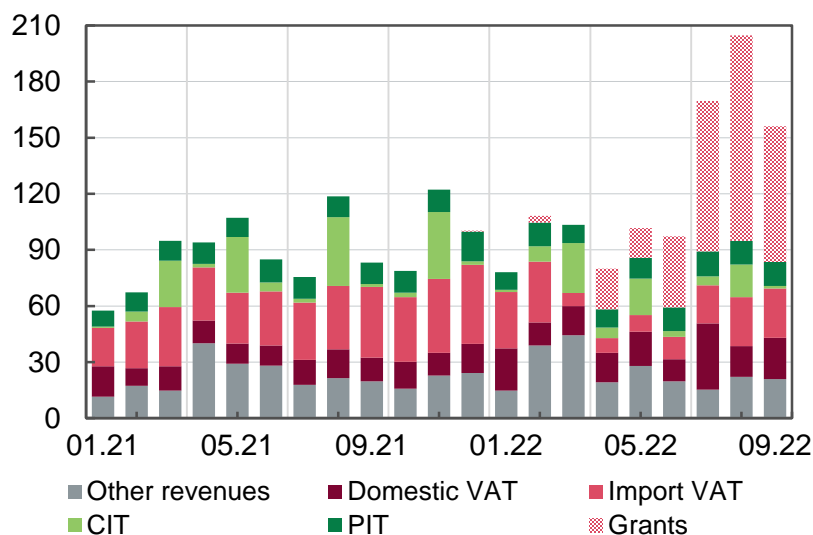
September - high-frequency data from the MFU website. NBU calculations based on the MoF's website information.

Source: Treasury, MoF, openbudget.gov.ua, NBU staff estimates.

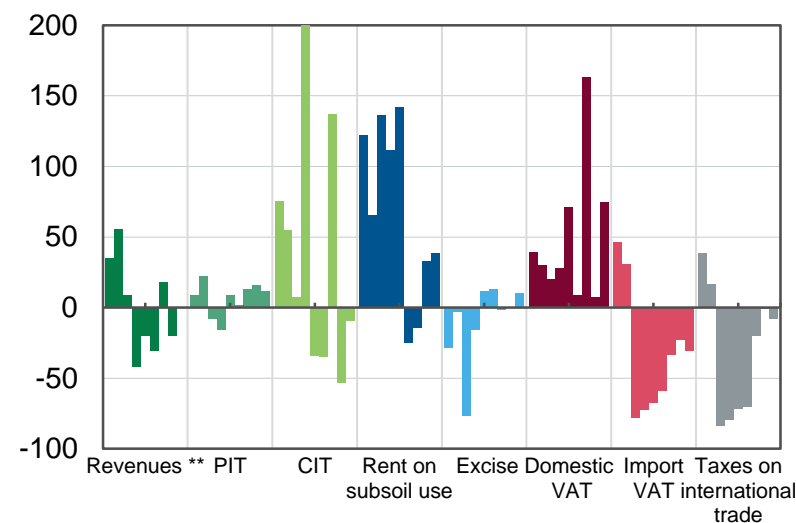
- In September, the state budget deficit widened significantly, which is typical for this month. However, this year, the deficit size and the rate of expansion were considerably greater than in the pre-war period, since expenditures surged. In January-September, the negative balance reached UAH 493 bn
- The main sources of deficit financing were international support (in particular, due to accumulated resources in foreign currency in the previous month) and the purchase of war bonds by the NBU. However, the size of the latter was kept within the announced volumes - UAH 30 bn per month
- Simultaneously, market demand for government domestic securities remained weak

The revenues performance (excluding grants) remains dire despite an occasional improvement in September

Revenues of the state budget's general fund, UAH bn



Growth in revenues of the state budget's general fund in 2022, monthly*, % yoy



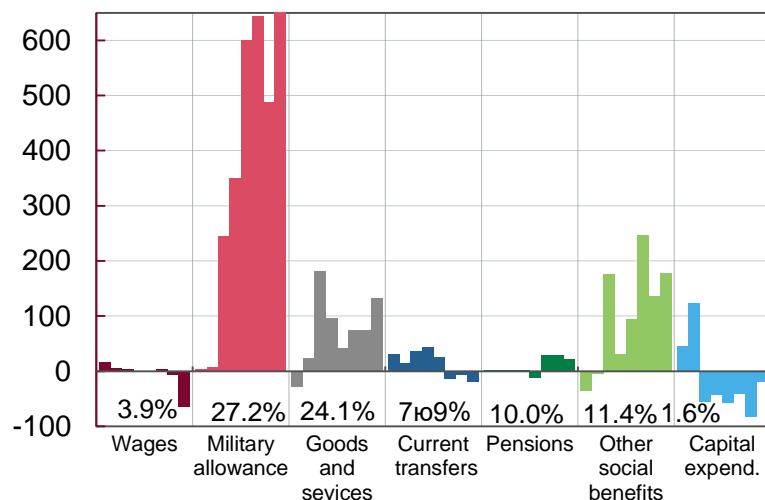
*Operative data from the MFU website. ** Excluding grants.

Source: Treasury, MoF, openbudget.gov.ua, NBU staff estimates.

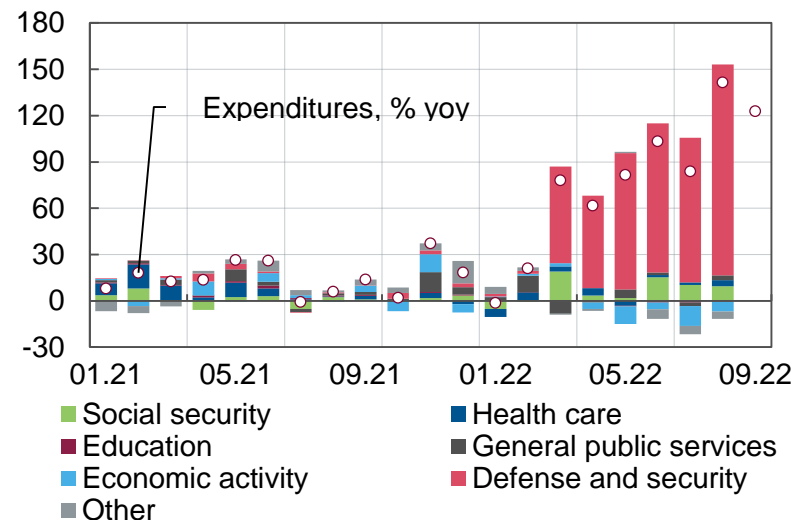
- In annual terms, the general fund revenues excluding grants increased in September, which, however, mostly came from a one-off factor – low VAT refund volume (UAH 1.6 bn compared to UAH 9.5 bn in August)
- However, significant payments to military personnel (affecting the dynamics of PIT and other consumption taxes), further inflationary and exchange rate effects, and relatively high volumes of imports supported revenues

Expenditures continued to grow at a significant pace

Growth in expenditures of the state budget in 2022, % yoy



Contributions to annual changes in expenditures of the state budget, pp



Source: Treasury, MoF, openbudget.gov.ua, NBU staff calculations.

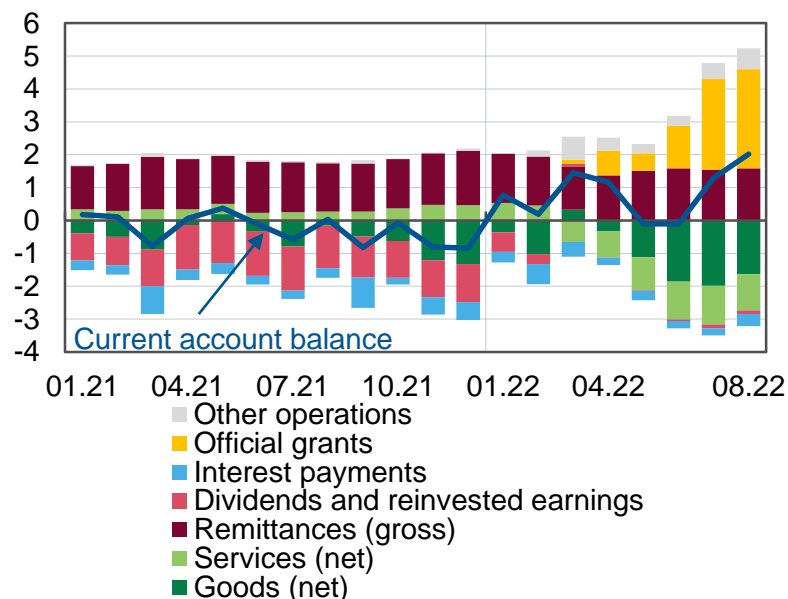
- Despite a certain slowdown in growth rates in September state budget expenditures more than doubled compared to the last year. Such a significant increase was probably related to considerable expenses on the defense and security sector (primarily on military allowance), social programs, and the use of goods and services
- Also, capital expenditures were likely to increase, which was due to the reconstruction of infrastructure in the de-occupied territories



Ukraine: Balance of Payments

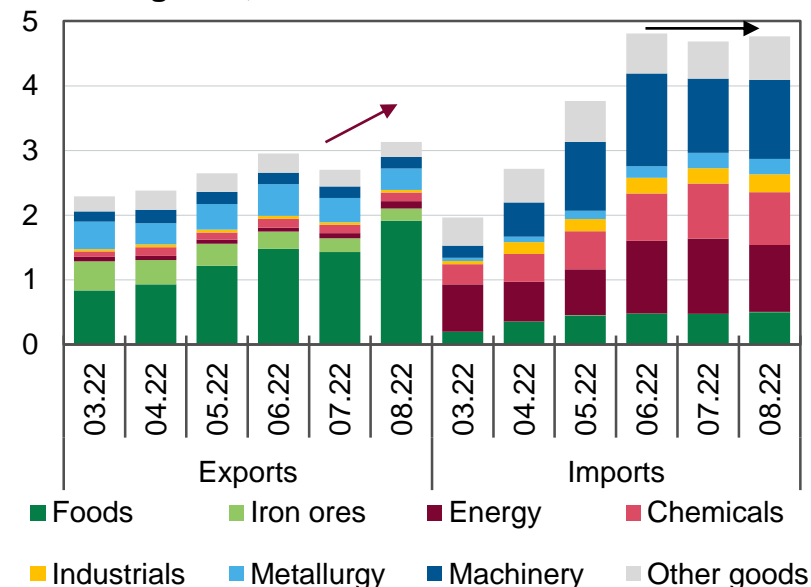
More grant financing received and a narrowing of the goods trade deficit contributed to larger current account surplus

Current account balance, USD bn



Source: NBU staff calculations.

Trade in goods, USD bn

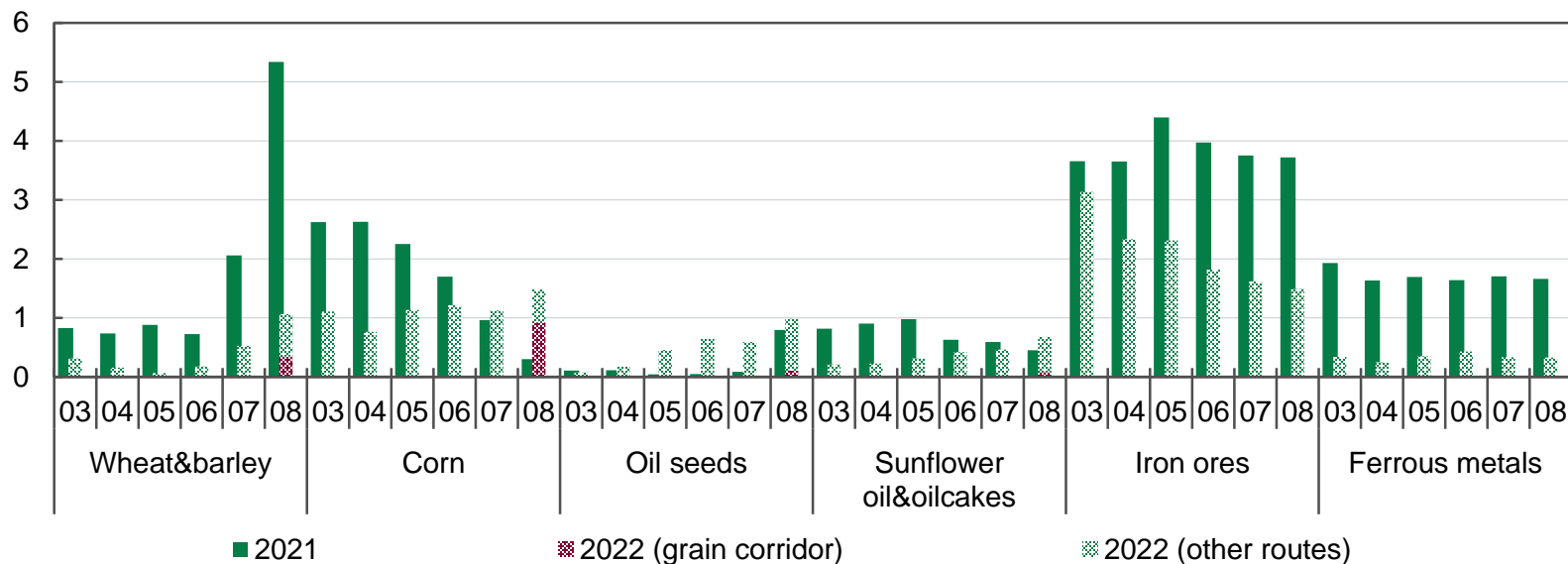


Source: NBU staff calculations.

- The launch of the grain corridor ensured an increase in exports of goods in August, compared to previous months, while imports remained basically unchanged. This resulted in a slight decline in merchandise trade deficit, which however remained much larger than its pre-war levels
- Grant disbursements ensured further expansion of the surplus of the secondary income account and the current account as a whole

As a result of the launch of the grain corridor, exports of goods reached the highest level since the beginning of the war

Exports of goods, m t

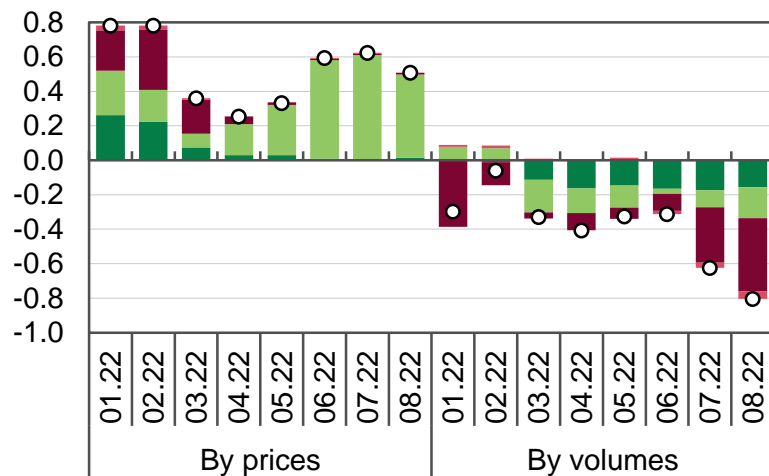


Source: SCSU, Black Sea Grain Initiative JCC.

- The launch of the grain corridor contributed to the increase of food products supplies (grains and oil seeds, sunflower oil and oilcakes). Despite the grain corridor functioning rather in a test mode in the first half of month, unblocking Black Sea ports (Odesa, Chornomorsk and Pivdenny) in August allowed to export almost 1.5 m tons of food products
- The electricity exports reached a record high as its supplies to EU countries intensified
- On the other hand, supplies of iron ore and ferrous metals continued to decline as a result of a decrease in their production, due to the persistence of difficulties with logistics and a significant increase in its cost, as well as a weakening of external demand

Lower energy imports offset the increase in non-energy component, so imports remained almost at the level of July

Absolute annual change in imports of selected energy goods, USD bn

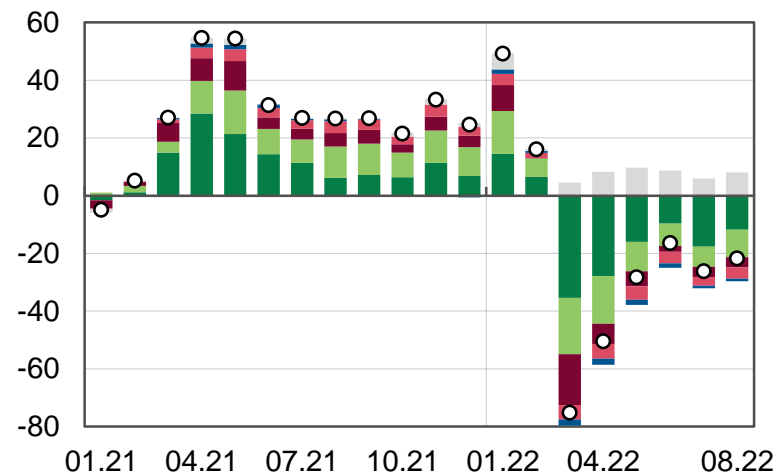


■ Coal ■ Oil&oilproducts ■ Natural gas* ■ Coke

* Estimated data on natural gas imports in August 2022.

Source: SCSU, NBU staff calculations.

Contributions to annual change in non-energy imports, pp



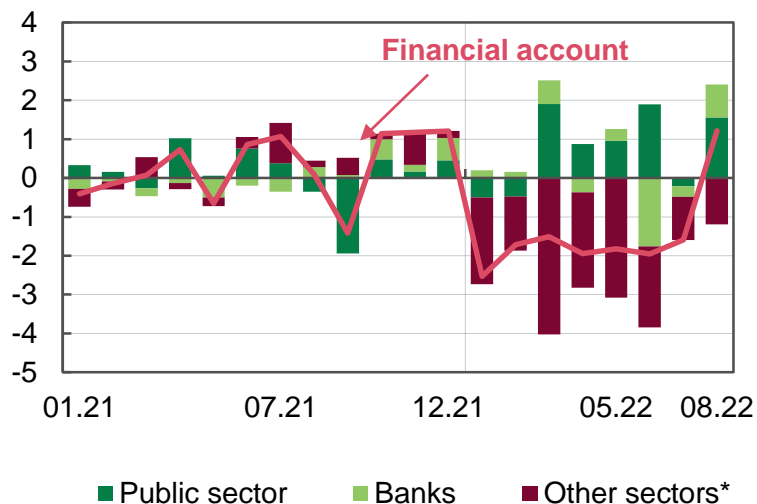
■ Machinery ■ Foods&Industrials ■ Wood products ■ Chemicals ■ Metallurgy ■ Other goods

Source: NBU staff calculations.

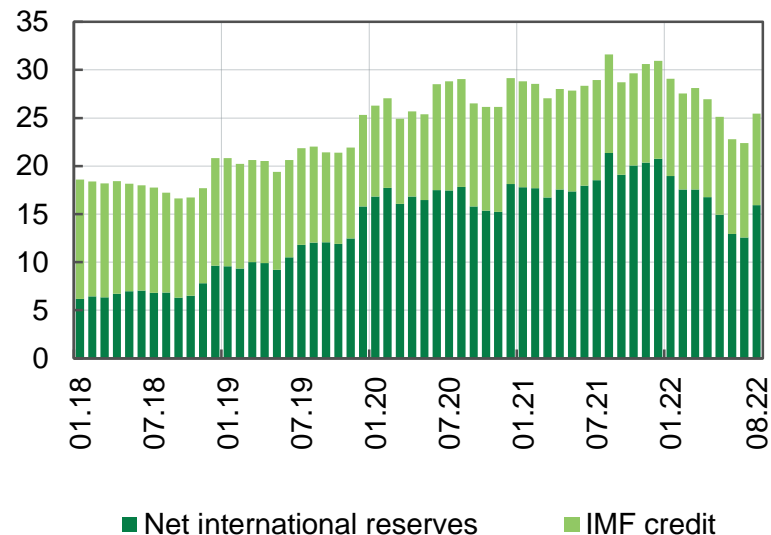
- Energy products imports decreased slightly compared to the previous months since natural gas purchases were close to zero and imports of petroleum products decrease as domestic market started being somewhat saturated
- Instead, the increase in imports of selected consumer and investment goods resumed after a certain slowdown in July on the back of gradual intensification of economic activity and significant defense needs

Sizable disbursements of international financial assistance by the public sector ensured inflows under financial account...

Financial account: net external liabilities, USD bn



Gross international reserves, USD bn



* Including net errors and omissions.

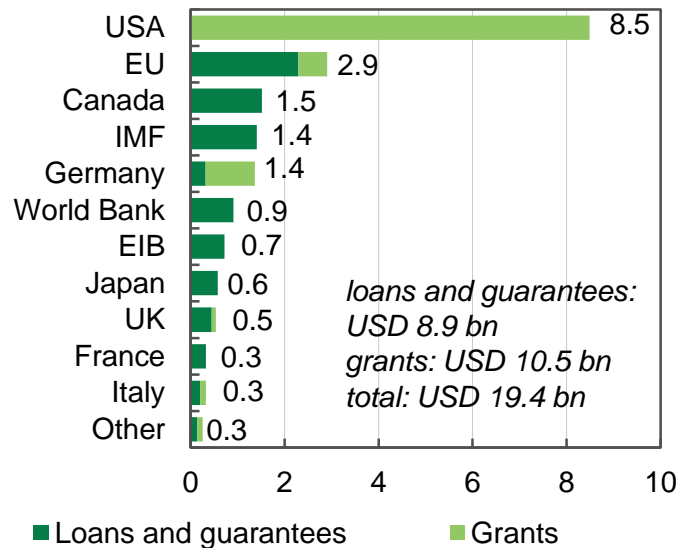
Source: NBU.

Source: NBU.

- Sizable disbursements of international financial assistance in the form of loans continued to ensure the capital inflows to the public sector in August as well
- In addition, due to the sale of foreign currency by individual banks in the interbank market, banking sector assets decreased
- Private sector capital outflows continued to be generated by the growth in assets under trade credits and further build-up in cash outside banks

...which along with the current account surplus made reserves increase for the first time since March

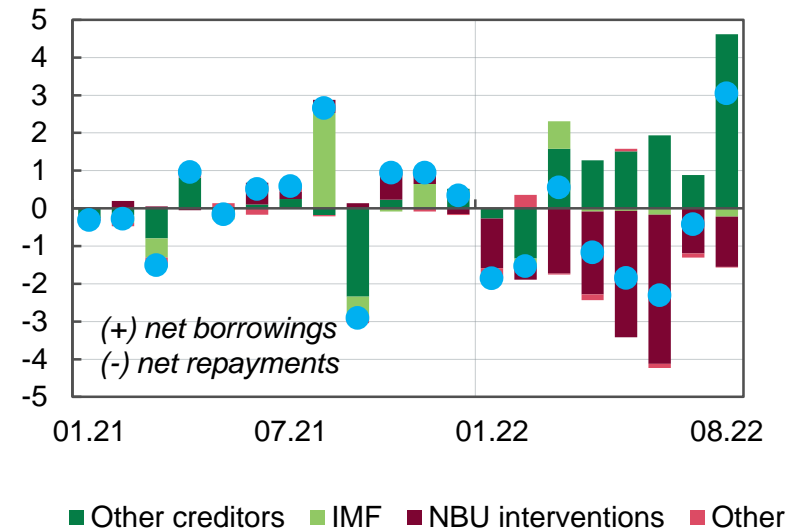
International financial assistance* by instrument, USD bn



* Preliminary data, as of September 28, 2022.

Source: NBU.

Change in reserves, USD bn



Source: NBU.

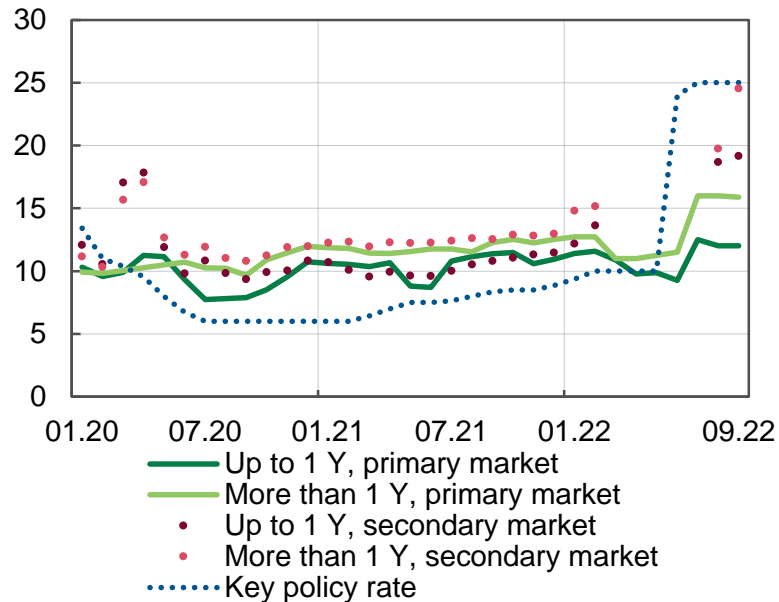
- Ukraine received almost USD 20 bn of financial assistance in the form of both grants and loans since the beginning of the war. In particular, USD 1.7 bn were received in August in the form of loans and USD 3 bn of grants
- As a result, gross international reserves increased for the first time since March and amounted to USD 25.4 bn, which covers 4 months of future imports



Ukraine: Monetary sector

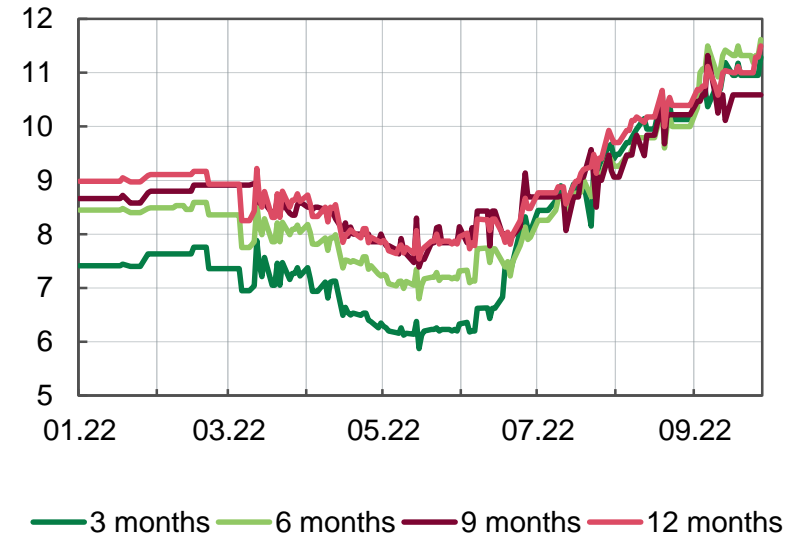
The attractiveness of assets increases based on the expectations for the key policy rate to remain unchanged for a long time

The yield of hryvnia government bonds, % per annum



Source: NBU staff estimates.

Ukrainian index of retail deposit rates, %

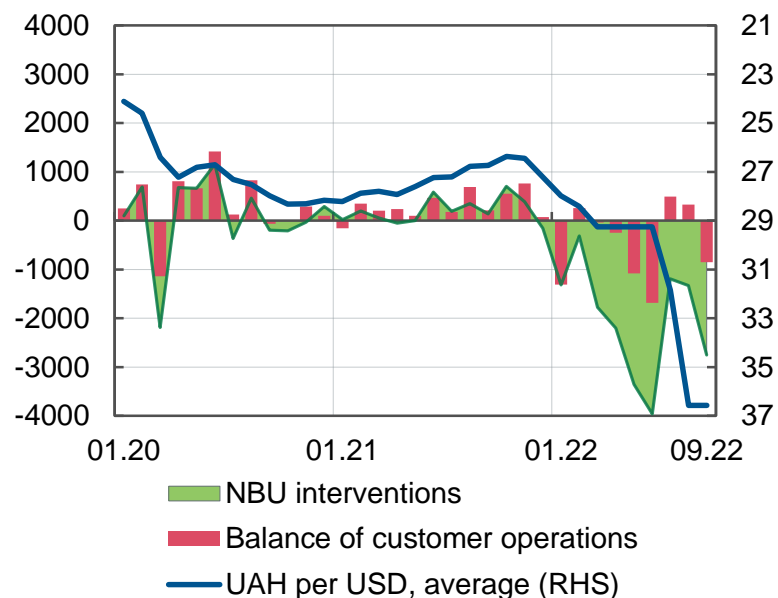


Source: Thomson Reuters.

- Yields on hryvnia domestic government debt securities on the secondary market demonstrate a more pronounced reaction to the key policy rate, and they significantly exceed those on the primary market
- Interest rates on hryvnia deposits are gradually increasing, but remain markedly lower than the key policy rate. This does not create strong incentives for investors to prefer hryvnia assets over the FX instruments

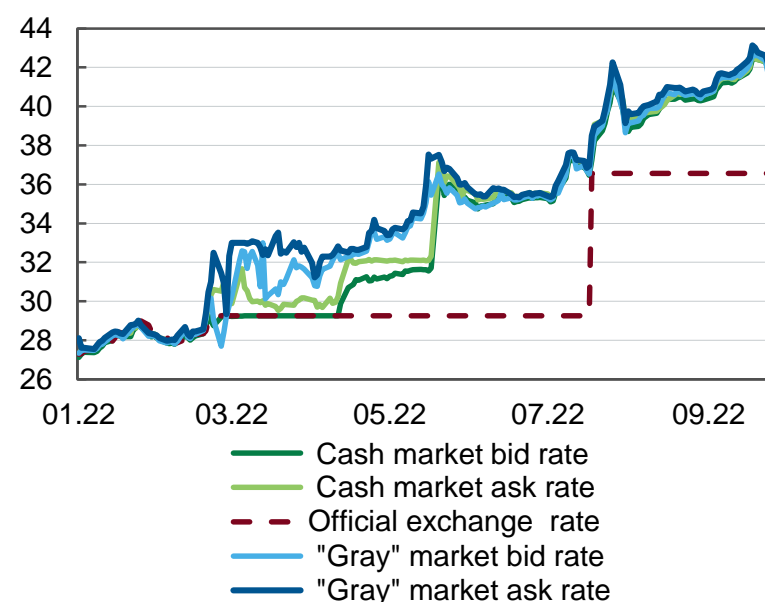
NBU`s net FX sales rose as demand for foreign currency increased in September

Balance of operations on purchase and sale of non-cash and cash foreign currency by bank customers, USD m



Source: NBU

Exchange rates UAH/USD



Source: NBU, open data sources.

- Deterioration in the information environment due to aggressive statements and terrorist actions of the rf on the background of FX cash deficit led to a temporary increase in FX demand and the depreciation pressures on the FX cash market
- At the same time, the demand for foreign currency from enterprises performing mobilization tasks and the banks` purchase in the FX position increased significantly. The latter is associated with significant transfers to international payment systems and a growing spread between cash and official rates