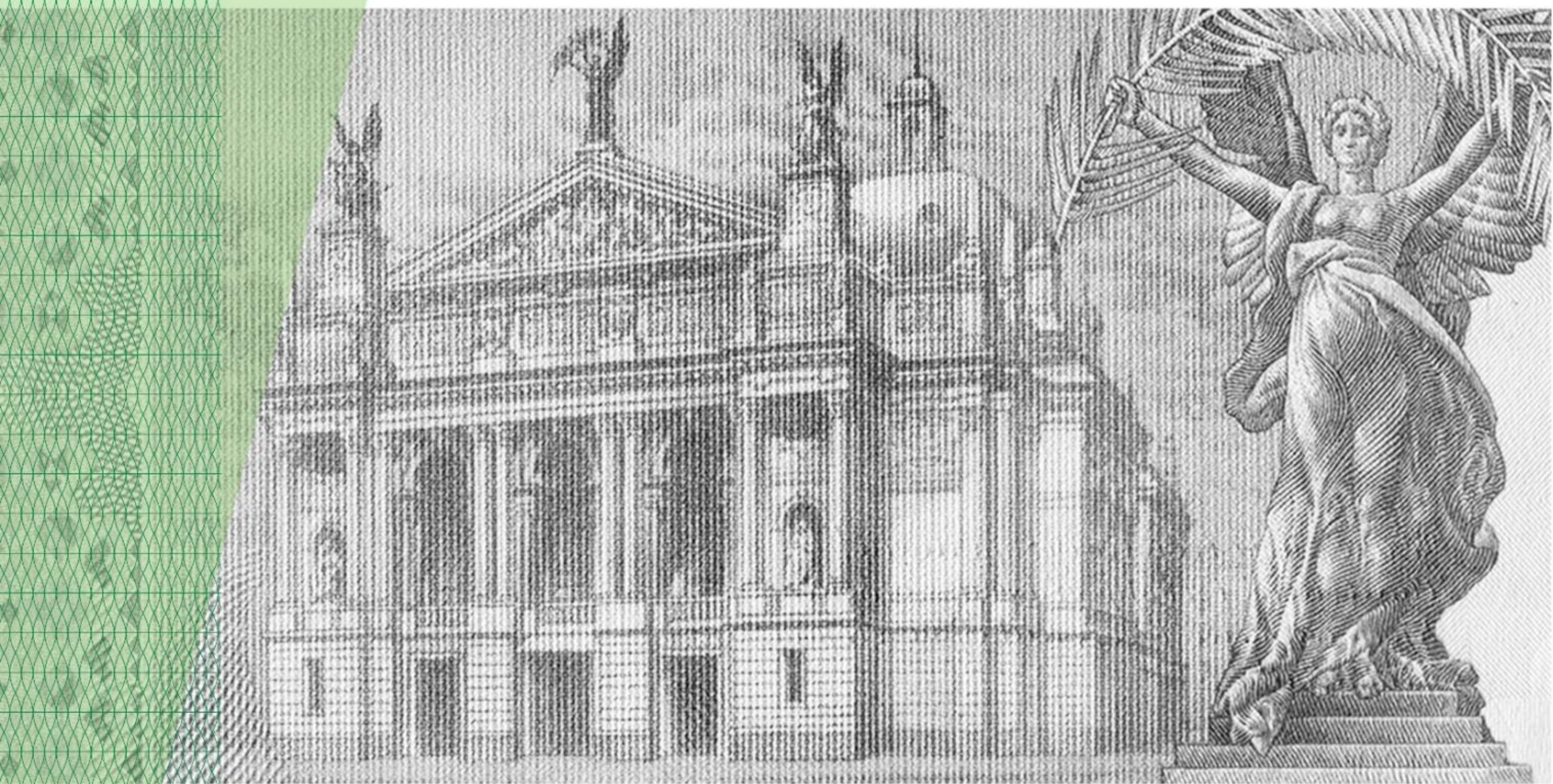
National Bank of Ukraine

Inflation Report

April 2024

Summary



Despite the full-scale war, the NBU remains committed to its mandate to ensure price and financial stability – the key to achieving sustainable economic recovery. At this point, these goals are being attained through a combination of instruments of interest rate and FX policies and FX restrictions as per Monetary Policy Guidelines for the Duration of Martial Law and the Strategy for Easing FX Restrictions, Transitioning to Greater Flexibility of the Exchange Rate, and Returning to Inflation Targeting (hereinafter referred to as the “Strategy”). In keeping with the principles of managed flexibility of the exchange rate, the NBU maintains an active presence in the FX market and makes up for structural deficits of foreign currency to ensure that the exchange rate fluctuates moderately in either direction, depending on changes in market conditions. Coupled with smoothing out excessive exchange rate volatility, this contributes to keeping inflation expectations and exchange rate expectations under control, maintaining confidence in the hryvnia, and ensuring the desired inflation dynamics. At the same time, exchange rate flexibility makes it possible to fortify the resilience of Ukraine’s economy and FX market against domestic and external shocks and reduce the risk of accumulation of foreign-trade imbalances.

Further renewal of the effectiveness of monetary transmission channels contributes to the gradual strengthening of the key policy rate’s role as a monetary instrument. Decisions to change the key policy rate or adjust the operational design of the interest rate policy are flexibly informed by significant shifts in the balance of risks and primarily aimed at maintaining the sustainability of the FX market and price and financial stability.

Aware of the urgency of removing market distortions and supporting the economic recovery, the NBU eases its FX restrictions. How and when to loosen them depends on whether the right macroeconomic prerequisites, not specific deadlines, have been met.

The analysis in the current Inflation Report (April 2024) is based on the data available at the time of its preparation, meaning that the time horizon of the analysis may vary for some indicators. The cut-off date for the data in this report is 24 April 2024 for most indicators. The Inflation Report contains a forecast of the country’s economic development in 2024–2026 that was prepared by the Monetary Policy and Economic Analysis Department and approved by the NBU Board at its monetary policy meeting on 25 April 2024.[1]

The NBU Board makes decisions on the key policy rate and other monetary tools in line with the schedule published in advance. The decisions the NBU Board makes in January, April, July, and October are based on a new macroeconomic forecast. At the remaining four meetings (in March, June, September, and December), the NBU Board takes its decisions based on the results of assessments of risks and uncertainly that take into account the economic developments in Ukraine and abroad that have occurred since the latest forecast. The decisions are announced at a press briefing held at 2 p.m., after the NBU Board’s monetary policy meeting. A press release that reflects the NBU Board’s consensus perspective on its decisions is published at the same time. The summary of the discussion at the Monetary Policy Committee is published on the 11th day after the decision is taken. The summary shows the depersonalized opinions of all MPC members on the optimal monetary policy decisions to be made. It includes differences of opinion and the reasoning behind them.

Previous issues of the Inflation Report, presentations of the Inflation Report, the forecast of the main macroeconomic indicators, and data in tables and figures are available here.

[1] NBU Board Decision No. 137–D *On Approval of the Inflation Report* dated 25 April 2024.

Summary

The baseline scenario of the NBU's macroeconomic forecast assumes that Ukraine will continue to conduct prudent monetary and fiscal policies focusing on maintaining macrofinancial stability and will consistently meet its commitments under programs with international partners, which in turn will not stop providing sufficient volumes of financial support. The NBU assumes that security risks will subside and that conditions in which the economy operates will normalize over the forecast horizon. This will contribute to the full unblocking of sea ports, the expansion of opportunities for investment and economic activity, and the gradual return of forced migrants to Ukraine.

In Q1 2024, consumer inflation slowed more rapidly than expected by the NBU

Actual consumer inflation slowed to 3.2% yoy in March and was below the NBU's forecast published in the January 2024 Inflation Report. The deviations from the forecast were primarily driven by factors that were difficult to predict, including temporary ones. Mild winter led to higher supply of raw foods and lowered the pressure from business costs, in particular the cost of energy. In addition, last year's strong harvests continued to affect consumer prices.

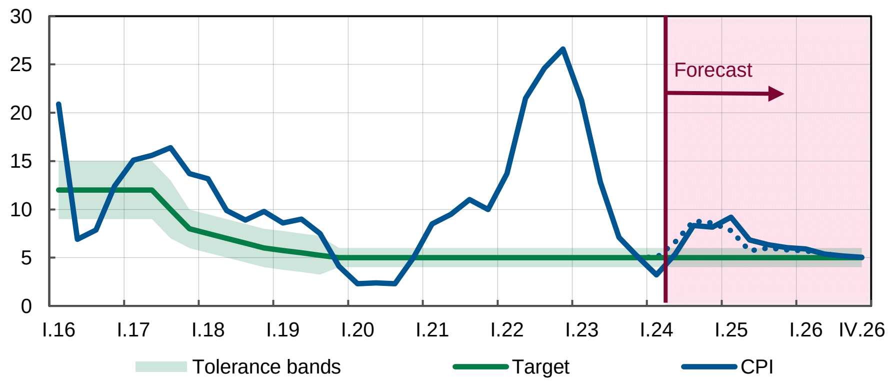
Core inflation also slowed (to 4.2% yoy) and was close to the NBU's forecast. The underlying inflationary pressures were eased by an improvement in inflation expectations and pass-through effects from lower prices of raw foods to the prices of processed foods and some services. Meanwhile, further growth in labor costs and consequences of the blockade of the western borders restrained core inflation from slowing faster.

The NBU has improved its inflation forecast for end-2024 to 8.2% and expects inflation to settle within the target range of 5% ± 1 pp in the coming years

As before, the NBU forecasts a moderate increase in inflationary pressure this year in view of the expected vanishing of effects from last year's strong harvests, continued recovery in consumption, a rise in business costs amid the war. At the same time, taking into account the improved dynamics of actual inflation and better inflation expectations, the NBU has lowered its end-2024 inflation forecast, from 8.6% to 8.2%.

In the coming years, inflation will decrease and settle within the target range of 5% ± 1 pp. This will be facilitated by a gradual normalization of conditions in which the economy operates, an easing of external inflationary pressures, and the NBU's consistent monetary policy. Inflation is expected to slow to 6% at the end of 2025 and to 5% at the end of 2026.

Figure 1.[2] **CPI change (end of period, % yoy) and inflation targets**



Source: SSSU, NBU staff estimates.

The economic recovery will continue, but will be restrained – primarily, due to significant damage to energy infrastructure

According to the NBU's estimates, real GDP growth in Q1 2024 was weaker than expected, mainly as a result of contained budgetary spending amid the uncertainty about inflows of external financing. The blockade of the western borders was an additional factor restraining the activity in some economic sectors. At the same time, the stable operation of the sea

[2] Unless specified otherwise, a dashed line in the figures indicates the previous forecast.

corridor, favorable weather, and strengthening domestic demand supported economic growth.

The NBU forecasts further recovery in economic activity given recent progress with the issue of international assistance to Ukraine, which will allow keeping the budget policy accommodative, and an expected pickup in domestic and foreign demand. Meanwhile, the real GDP growth forecast has been revised downwards due to the consequences of russia's massive attacks on Ukraine's energy infrastructure. The economy is expected to grow by 3% in 2024 and by 4.5%–5% in 2025–2026.

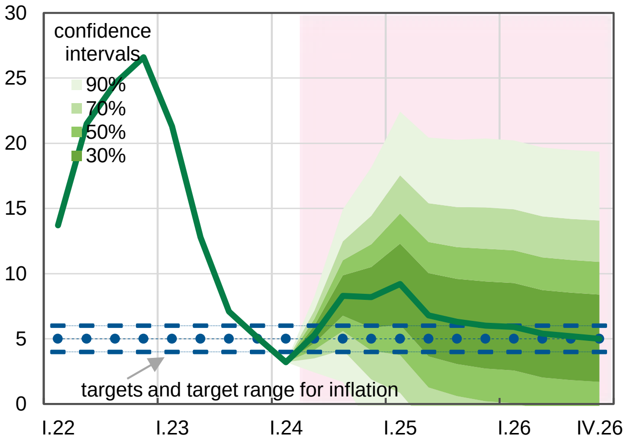
The continuation of international financial support and measures to strengthen the sustainability of public finances will secure further macrofinancial stability necessary for solid economic recovery

As expected, Ukraine received USD 9 billion from international partners in March, which allowed the country to increase its international reserves to almost USD 44 billion.

Moreover, in the past days, Ukraine received positive news from the United States about the approval of the military and financial assistance package. Ukraine also received another tranche from the EU in the amount of EUR 1.5 billion. In such a way, Ukraine can count on receiving USD 38 billion in external budgetary support this year.

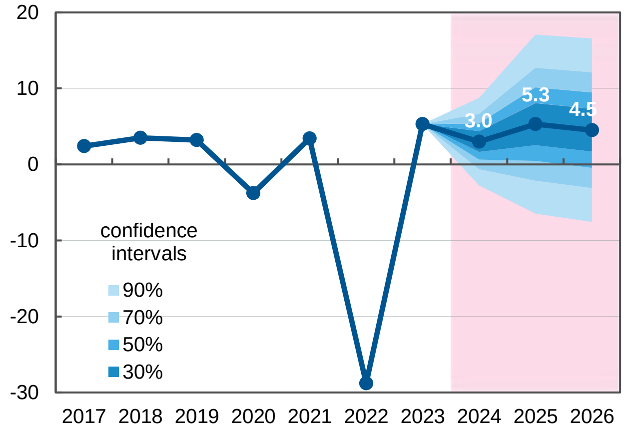
In the meantime, the country continues to implement measures to increase its self-sufficiency. The government is strengthening its own resource base and increasing borrowing from the domestic market. In particular, the forecast scenario assumes that additional fiscal revenues might be mobilized to avoid monetary financing. For its part, the NBU is improving currency control measures. Combined with the resumed regular inflows of external assistance, this will allow financing the planned budget expenditures and supporting the controllable situation on the FX market.

Figure 2. CPI growth forecast and inflation targets, % yoy



Source: NBU staff estimates.

Figure 3. Real GDP growth forecast, % yoy



Source: NBU staff estimates.

Taking into account the balance of risks, as well as favorable macrofinancial trends, in particular better inflation dynamics, the NBU cut the key policy rate by 1 pp in April, to 13.5%

The previous steps to ease interest rate policy and changes in the operational design of monetary policy gradually decreased nominal yields on hryvnia deposits and domestic government debt securities. At the same time, on the back of the overall improvement in inflation expectations, these instruments remained attractive and in demand. A moderate cut in the key policy rate should not diminish interest in hryvnia assets, as they will continue to protect savings from being eroded away by inflation.

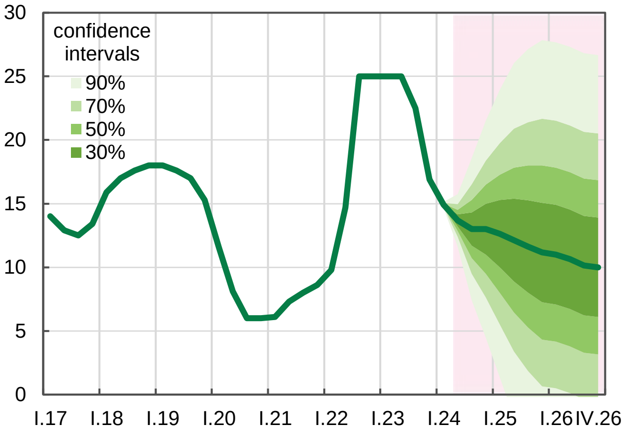
The NBU is also cutting the interest rates on overnight certificates of deposit and three-month certificates of deposit, to 13.5% and 16.5% respectively. What is more, the NBU is decreasing interest rates on refinancing loans more pronouncedly – by 2 pp, to 17.5%. In the context of the interest rate policy easing cycle, the need to maintain a significant difference between the interest rate on refinancing loans and the key policy rate is diminishing.

With the level of international reserves being comfortable, the situation on the FX market being under control, and there being expectations of further international assistance inflows, the NBU is preparing a number of steps to liberalize the FX market in the coming weeks. These steps will be in line with the *Strategy for Easing FX Restrictions, Transitioning* *to a More Flexible Exchange Rate, and Returning to Inflation Targeting*. These steps have already been taken into account in the revised macroeconomic forecast, which assumes that international reserves will remain close to their current level this year and next year – – at USD 43-44 billion.

The NBU sees some room for the further easing of its interest rate policy, provided that favorable macrofinancial trends continue

The baseline scenario of the NBU's forecast envisages a cut in the key policy rate to 13% this year. This easing of interest rate policy and the planned steps to liberalize the FX market should not pose any additional threats to macrofinancial stability and FX market sustainability.

Figure 4. **Key policy rate, quarter average, %**



Source: NBU staff estimates.

The NBU will adapt its monetary policy if the balance of risks changes significantly. Thus, lower risks to inflation and exchange rate sustainability could create preconditions for further cuts in the key policy rate and an easing of FX restrictions, which would support lending and economic recovery.

The course of the full-scale war continues to be the key risk to inflation dynamics and economic development

russia's full-scale aggression continues and causes new losses to the Ukrainian economy. The NBU assumes that security risks will subside and that conditions in which the economy operates will normalize over the forecast horizon. However, a prolonged, high-intensity war threatens to further destroy cities, infrastructure, and production facilities, and the extent of the destruction is difficult to estimate in advance.

Compared to the previous forecast, the risk of insufficient international financing this year has eased considerably, but the risks to regularity of the financing remain. The following risks also remain relevant:

- the emergence of additional budget needs to maintain defense capabilities or cover substantial quasi-fiscal deficits, in the energy sector in particular
- heavy damage to infrastructure, especially energy and port infrastructure, which will limit economic activity and put supply-side pressures on prices
- the continuation of the partial blockade of freight transportation at border crossings with some EU countries, which will depress exports and make imports more expensive
- the deepening of adverse trends in migration, and
- the aggravation of the situation in the Middle East, which, in particular, increases the risks of possible disruptions to energy supplies and a rise in energy prices for the global economy.

At the same time, a number of positive scenarios are still likely to materialize, including further expansion of export opportunities, the transfer of funds from immobilized russian assets to Ukraine, the acceleration of European integration processes, and the implementation of a large-scale recovery program.

Macroeconomic forecast (April 2024)

Indicators	2019	2020	2021	2022	2023		2024						2025						2026					
					act./est.	forecast 01.2024	I	II	III	IV	current forecast	forecast 01.2024	I	II	III	IV	current forecast	forecast 01.2024	I	II	III	IV	current forecast	forecast 01.2024
REAL ECONOMY, % yoy, unless otherwise stated																								
Nominal GDP, UAH bn	3977	4222	5451	5239	6538	6510	1571	1713	2033	2273	7590	7580	1776	1957	2335	2637	8705	8710	2026	2200	2586	2874	9685	9690
Real GDP	3.2	-3.8	3.4	-28.8	5.3	5.7	3.1	3.7	1.3	4.1	3.0	3.6	2.4	4.2	5.9	7.7	5.3	5.8	6.6	5.4	4.1	2.8	4.5	4.5
GDP Deflator	8.2	10.3	24.8	34.9	18.5	17.5	11.8	12.8	13.0	13.0	12.7	12.4	10.4	9.7	8.5	7.7	8.9	8.6	7.0	6.7	6.4	6.0	6.5	6.5
Consumer prices (period average)	7.9	2.7	9.4	20.2	12.9	12.8	-	-	-	-	6.2	7.0	-	-	-	-	7.3	6.8	-	-	-	-	5.5	5.4
Consumer prices (end of period)	4.1	5.0	10.0	26.6	5.1	5.1	3.2	5.4	8.4	8.2	8.2	8.6	9.2	6.7	6.3	6.0	6.0	5.8	5.9	5.4	5.2	5.0	5.0	5.0
Core inflation (end of period)	3.9	4.5	7.9	22.6	4.9	4.9	4.2	5.0	6.2	6.7	6.7	6.4	6.3	5.2	4.1	3.6	3.6	3.1	3.6	3.4	3.1	3.0	3.0	2.9
Non-core inflation (end of period)	4.8	5.9	13.5	30.6	5.7	5.7	2.4	5.9	11.3	10.1	10.1	11.3	12.8	8.9	9.0	8.9	8.9	9.0	8.7	7.6	7.6	7.4	7.4	7.2
raw foods (end of period)	3.9	4.1	11.8	41.6	2.2	2.2	-4.9	-2.6	8.5	4.9	4.9	8.0	9.1	4.3	3.7	3.2	3.2	3.0	3.3	3.3	3.0	3.0	3.0	3.0
administrative prices (end of period)	8.6	9.9	13.6	15.3	10.7	10.7	9.9	12.8	14.1	14.7	14.7	14.7	15.9	12.7	14.6	15.5	15.5	17.5	14.9	12.5	12.4	12.1	12.1	12.5
Nominal wages (period average)	18.4	10.4	20.9	6.0	17.4	17.1	20.9	16.2	11.3	11.7	14.8	16.2	15.0	15.3	15.4	11.2	14.2	12.0	9.4	9.1	8.3	7.9	8.6	8.2
Real wages (period average)	9.8	7.4	10.5	-11.4	3.7	3.5	16.3	10.9	3.4	3.1	8.1	8.7	5.6	7.3	8.3	4.9	6.5	4.9	3.4	3.3	2.8	2.6	3.0	2.7
Unemployment rate (ILO, period average)	8.2	9.5	9.8	21.1	18.2	19.0	-	-	-	-	14.2	16.2	-	-	-	-	11.9	13.9	-	-	-	-	10.6	12.2
FISCAL SECTOR																								
Consolidated budget balance, UAH bn	-87	-224	-187	-845	-1328	-1328	-	-	-	-	-1395	-1108	-	-	-	-	-941	-1022	-	-	-	-	-703	-726
% of GDP	-2.2	-5.3	-3.4	-16.1	-20.3	-20.4	-	-	-	-	-18.4	-14.6	-	-	-	-	-10.8	-11.7	-	-	-	-	-7.3	-7.5
excluding grants from revenues, % of GDP	-2.2	-5.3	-3.4	-25.3	-26.9	-27.1	-	-	-	-	-20.7	-20.7	-	-	-	-	-13.5	-13.5	-	-	-	-	-7.5	-7.5
BALANCE OF PAYMENTS (analytical presentation)																								
Current account balance, USD bn	-4.1	5.3	-3.9	8.0	-9.2	-9.7	-2.4	-6.5	-5.7	-5.6	-20.2	-16.9	-5.4	-4.6	-3.5	-4.7	-18.2	-19.8	-6.1	-6.8	-5.0	-5.2	-23.1	-23.8
Exports of goods and services, USD bn	63.6	60.7	81.5	57.5	51.1	50.9	14.1	13.4	14.2	15.4	57.0	53.3	13.7	13.6	16.0	17.4	60.8	59.4	15.0	14.8	17.1	18.6	65.6	64.3
Imports of goods and services, USD bn	76.1	63.1	84.2	83.3	88.5	88.6	21.1	21.8	23.0	24.4	90.3	90.9	22.6	22.2	23.3	24.2	92.3	90.4	22.7	23.1	24.4	25.0	95.3	94.8
Remittances in Ukraine, USD bn	11.9	12.0	14.0	12.5	11.4	11.6	2.7	2.8	2.9	3.0	11.4	12.5	3.0	3.1	3.2	3.4	12.7	13.6	3.2	3.3	3.5	3.7	13.7	14.8
Financial account, USD bn	-10.1	3.3	-4.4	11.1	-18.5	-19.1	-5.1	-2.3	-5.9	-6.1	-19.4	-13.7	-3.8	-5.9	-5.2	-4.6	-19.6	-22.1	-3.7	-4.3	-4.7	-4.8	-17.6	-18.0
BOP overall balance, USD bn	6.0	2.0	0.5	-2.9	9.5	9.5	2.7	-4.2	0.2	0.5	-0.8	-3.2	-1.6	1.4	1.8	-0.2	1.4	2.3	-2.5	-2.4	-0.3	-0.3	-5.6	-5.8
Gross reserves, USD bn	25.3	29.1	30.9	28.5	40.5	40.5	43.8	41.6	42.1	43.4	43.4	40.4	41.5	42.9	44.2	44.3	44.3	42.1	42.0	39.7	39.6	39.3	39.3	36.9
Months of future imports	4.8	4.2	4.5	3.9	5.4	5.3	5.7	5.4	5.5	5.6	5.6	5.4	5.4	5.5	5.6	5.6	5.6	5.3	5.5	5.4	5.4	5.8	5.8	5.5
MONETARY ACCOUNTS (cumulative since the beginning of the year)																								
Monetary base, %	9.6	24.8	11.2	19.6	23.3	23.3	3.1	6.8	8.8	14.4	14.4	11.6	2.4	5.8	8.1	13.0	13.0	10.1	-0.5	2.5	3.5	8.4	8.4	9.0
Broad money, %	12.6	28.6	12.0	20.8	23.0	23.0	1.7	6.6	7.9	14.1	14.1	10.2	2.0	4.4	6.0	12.5	12.5	8.3	0.6	1.8	3.8	7.6	7.6	5.5
Velocity of broad money (end of year)	2.8	2.3	2.6	2.1	2.1	2.1	-	-	-	-	2.2	2.2	-	-	-	-	2.2	2.4	-	-	-	-	2.3	2.5

Comments on the dynamics of the main indicators in the macro forecast and factors behind their revision

Indicators	2024	2025	2026	Factors behind the revision
Inflation, %, eop	**8.2** *-0.4*	**6.0** *0.2*	**5.0**	More significant supply of food products in 2024; improving expectations thanks to a controlled situation on the FX market and a weakening of external inflation pressure; higher pressure due to mismatches in the labor market in 2025
Real GDP growth, %	**3.0** *-0.6*	**5.3** *-0.5*	**4.5**	Higher energy deficits due to attacks on energy sector
Nominal GDP, UAH bn	**7590** *10*	**8705** *-5*	**9685** *-5*	Revision in 2024 due to higher base of 2023; in 2025-26 - due to lower real economic growth
Consolidated budget balance (excluding grants from revenues), % of GDP	**-20.7**	**-13.5**	**-7.5**	The estimates of budget needs in the baseline scenario remained unchanged
Current account balance, USD bn	**-20.2** *-3.3*	**-18.2** *1.6*	**-23.1** *0.7*	Redistribution of financing towards larger amounts of loans in 2024 and of grants in 2025-2026
Gross international reserves, USD bn	**43.4** *3.0*	**44.3** *2.2*	**39.3** *2.4*	Higher international financing and a better trade balance in 2024
Key policy rate (period average), %	**13.6** *-1.1*	**11.9** *-1.0*	**10.4** *-1.2*	Lower inflation pressures than expected and better inflation expectations

The indicator has been revised downwards (pp)

The indicator has been revised upwards (pp)

Forecast assumptions

Indicators		2021*	2022*	2023*	2024	2025	2026
Official financing	USD bn		32.2	42.9	37.9	25.1	12.6
Migration (net, excluding russia and belarus)	m			-0.2	-0.2	0.4	0.8
Real GDP of Ukraine's MTP (UAwGDP)	% yoy	6.5	3.5	1.4	2.3	2.8	2.7
Consumer inflation in Ukraine's MTP (UAwCPI)	% yoy	6.4	13.8	7.6	5.5	3.9	2.7
World prices:**							
Steel price, Steel Billet Exp FOB Ukraine	USD/t	615.0	618.1	539.7	527.3	508.1	494.3
	% yoy	57.9	0.5	-12.7	-2.3	-3.6	-2.7
Iron ore price, China import Iron Ore Fines 62% FE	USD/t	161.7	121.4	120.6	109.5	87.6	76.2
	% yoy	48.5	-24.9	-0.7	-9.2	-20.0	-13.0
Steel price, No.1 Hard Red Winter, ordinary protein, Kansas City	USD/t	265.8	360.2	272.3	229.1	242.5	247.3
	% yoy	43.3	35.5	-24.4	-15.9	5.8	2.0
Corn price, Yellow #2 Delivery USA Gulf	USD/t	259.4	318.4	252.7	202.2	215.3	223.3
	% yoy	56.7	22.7	-20.6	-20.0	6.5	3.7
Oil price, Brent	USD/bbl	70.4	99.8	82.6	84.4	74.7	73.1
	% yoy	66.4	41.8	-17.2	2.2	-11.5	-2.1
Natural gas price, Netherlands TTF	USD/kcm	574.8	1355.9	465.6	340.8	384.7	336.5
	% yoy	399.8	135.9	-65.7	-26.8	12.9	-12.5
Volumes of gas transit	bcm	41.6	20.6	15.0	15.0	0.0	0.0
Harvest of grain and leguminous crops	t m	86.0	53.9	59.8	53.0	59.5	65.5
Minimum wage**	UAH	6042	6550	6700	7775	8370	8950

* *Actual data*

** *Annual average*