National Bank of Ukraine

Monthly Macroeconomic and Monetary Review

March 2024

Monetary Policy and Economic Analysis Department

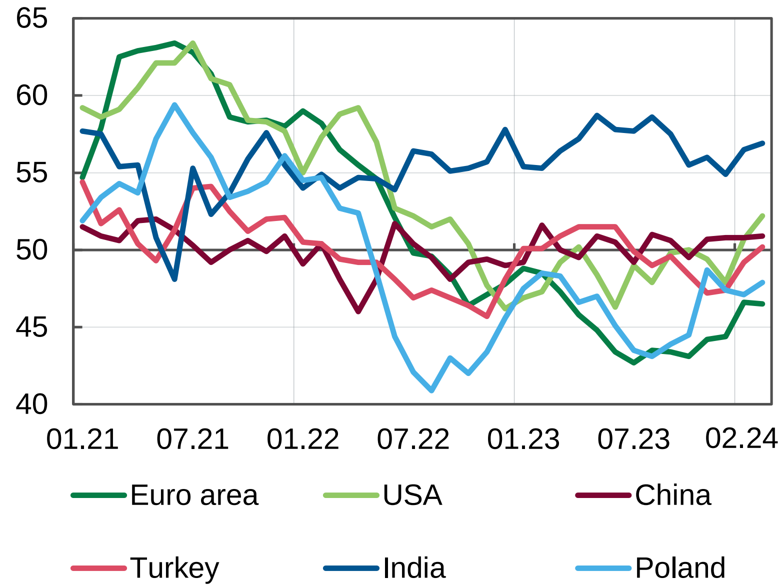
Summary

- **Economic growth in Ukraine's main trading partners (MTPs) is slowly recovering, but inflationary pressures have returned to a downward path.** Energy prices moved in opposite directions: oil prices rose due to the conflict in the Middle East, while gas prices fell amid ~~a~~ significant supply amid a mild winter. Due to the relative persistence of inflation, despite its slowdown, interest rates are expected to be cut more moderately by both leading central banks and those in EMs
- **Consumer inflation in Ukraine slowed down in January** – headline inflation to 4.7% yoy, core inflation to 4.6% yoy. According to the NBU estimates, inflation kept declining in February. This reflected a more ample supply of certain food products, including due to warmer weather and second-round effects from larger harvests in 2023, as well as lower pressure from business costs for raw materials and logistics. Along with the situation in the FX market remaining under control, these factors also eased underlying inflationary pressures
- **Economic activity continued to revive in February** owing to the increase in maritime and railway transportation, the growth in a number of industrial activities, including due to a stable situation in the energy sector. The warm weather contributed to the early start of sowing spring crops and construction works
- Since the beginning of the year, **demand for workers has been growing rapidly**, but labor supply remained tight. As a result, the businesses **saw increasing shortage of the skilled workforce**. Wages continued to rise in the private sector
- **In January-February, the budget deficit was relatively moderate**, backed by higher revenues, including those resulting from administrative decisions, and tight control over expenditures, among other things, due to lower volumes of international aid. Budget needs were primarily financed via domestic borrowings and previously accumulated funds
- In January, unhindered operation of the **sea corridor facilitated the growth of merchandise exports**, while **imports of goods decreased** due to seasonal factors. The narrowing of the trade in goods deficit offset lower amounts of the financial aid in the form of grants. International reserves decreased due to lower volumes of international financial assistance, although they remained at a comfortable USD 37.1 bn as of end- February
- **The situation in the FX market in February has remained under control**. Overall, the FX demand was moderate. The hryvnia exchange rate moved in both directions reflecting changes in market forces and on average remained practically unchanged compared to January. **The yields on hryvnia assets in real terms remained positive**

External Environment

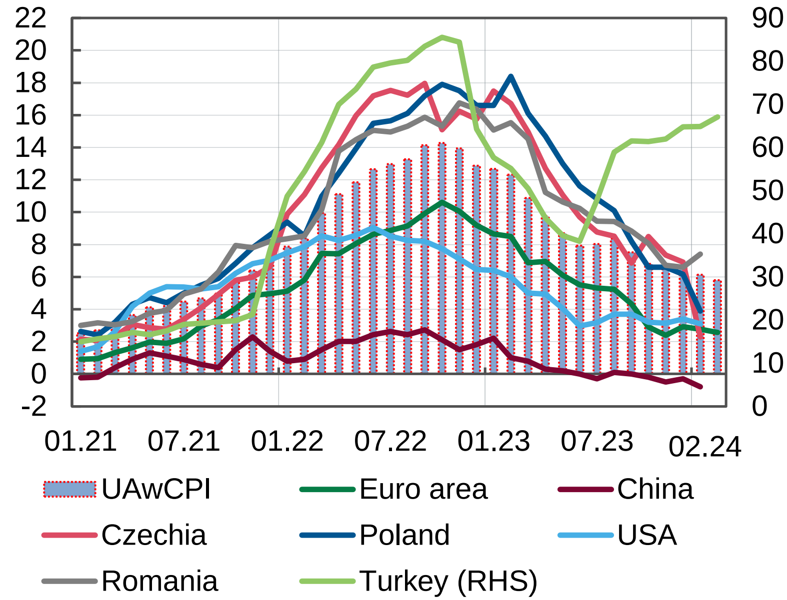
Economic growth in Ukraine's MTPs is slowly recovering. Inflationary pressures ease, but remain persistent

Manufacturing PMI of selected countries



Source: S&P Global.

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

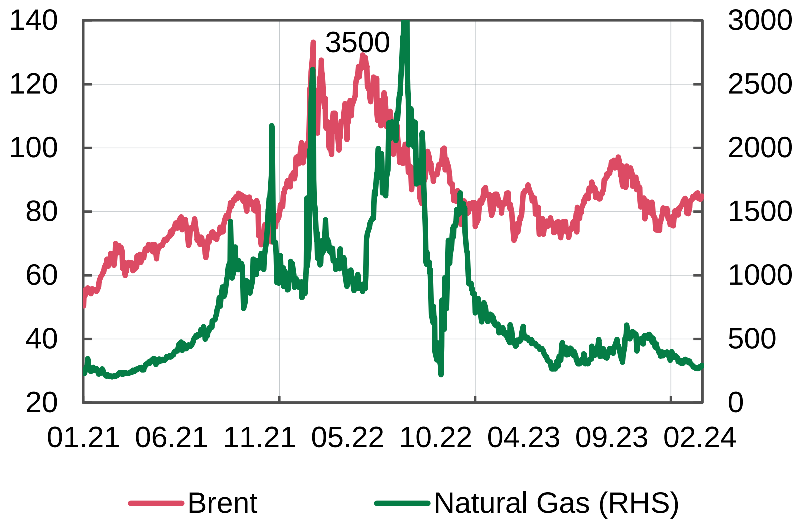


Source: national statistical offices, NBU staff estimates.

- Leading indicators showed signs of economic recovery since the beginning of the year. The expansion was recorded in the production of all types of goods: consumer, intermediate, and investment goods. This was driven by a rise in new orders amid improved business optimism
- Despite the crisis in the Red Sea, which remains a significant factor in higher logistics costs, the decline in international trade slowed
- The decline in inflation in Ukraine's MTPs (UAwCPI) resumed, primarily due to lower inflation in most CEE countries due to falling energy prices. In contrast, inflation in Turkey continued to rise due to robust demand and pass-through effects from the lira depreciation. On the other hand, inflation in the MTPs remained relatively persistent, as pressures from strong labor markets continued to be felt

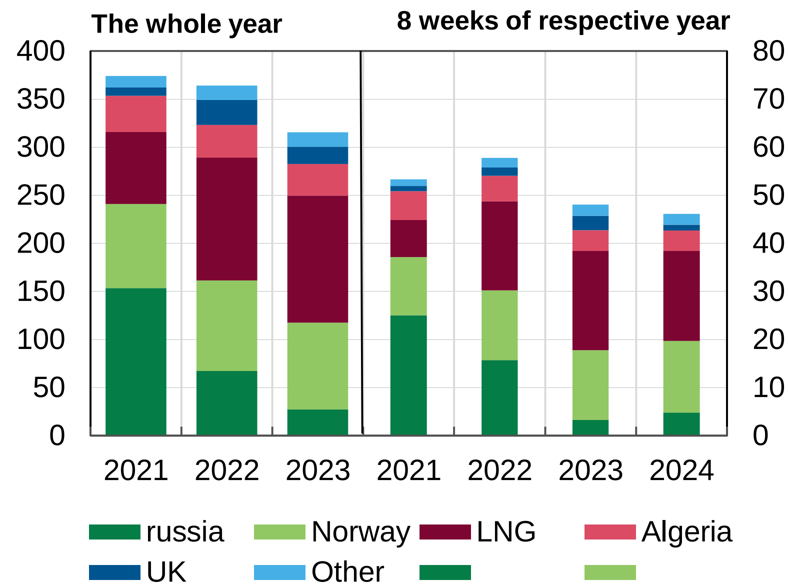
Crude oil prices rose due to the conflict in the Middle East, while gas grew cheaper due to significant supply amid a mild winter

World Brent oil prices (USD/bbl) and Netherlands TTF natural gas prices (USD/kcm)



Source: Refinitiv.

Natural gas import to the EU by origin, bcm

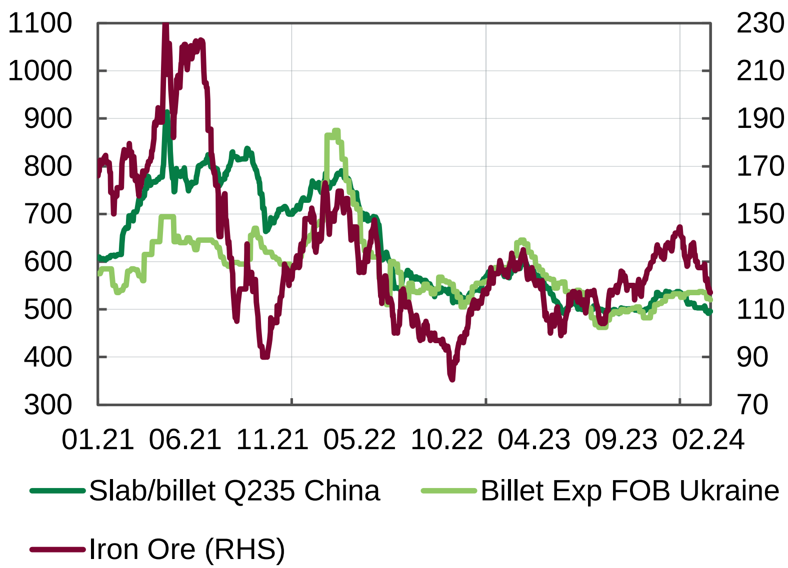


Source: Bruegel (russia, Norway, Algeria – pipelines).

- **Global oil prices rose** primarily due to growing fears of a possible market shortage as a result of the escalating conflict in the Middle East and, consequently, the crisis in the Red Sea. An additional factor supporting prices was the reduced production under the OPEC+ deal. At the same time, record production volumes in the US, the temporary lifting of oil sanctions against Venezuela, and increased supplies by Angola and Iran amid still weak global demand restrained price growth
- **Gas prices in Europe declined** amid excess supply due to significant gas production in the US, Qatar, Australia, and Norway and a relatively low demand amid a mild winter and high accumulated stocks

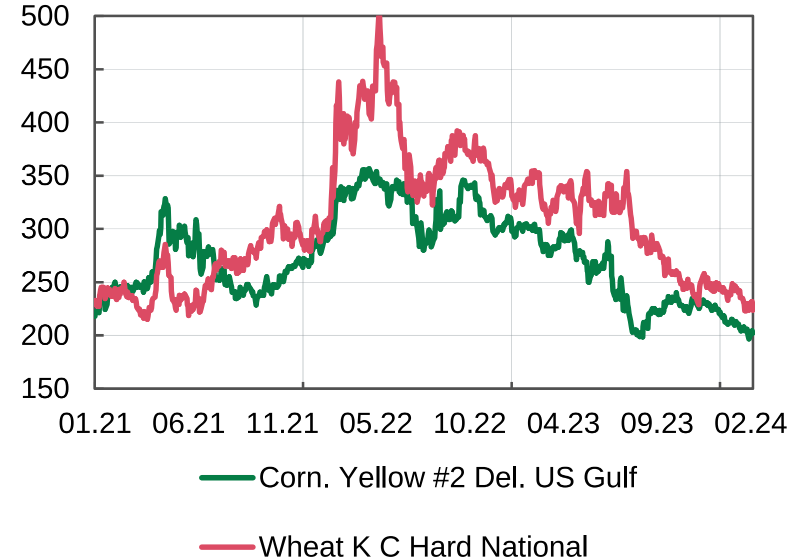
Global prices for commodities prevailing in Ukraine's exports declined under the influence of excess supply

Global steel and iron ore prices, USD/MT



Source: Refinitiv, Delphica.

Global grain prices, USD/MT

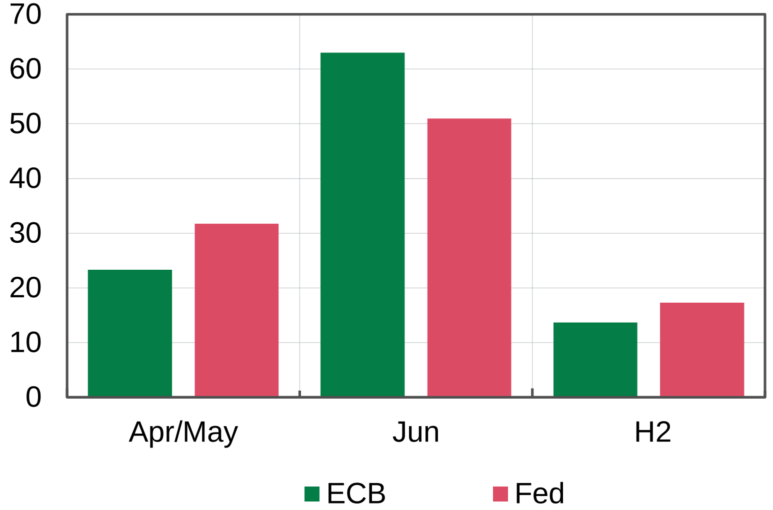


Source: Refinitiv.

- **Steel and iron ore fell in price** as a result of weak global demand, primarily from China and the SEA countries due to the New Year holidays, and, accordingly, delays in the recovery of consumption in the construction sector. Additional factors were the accumulated steel stocks in producers' warehouses and the continued growth in global iron ore production
- **Prices for wheat and corn decreased** due to the forecasts of higher production volumes in South America, a significant supply at lower prices from the Black Sea region, and a decline in buyers' activity, including in China and the SEA countries

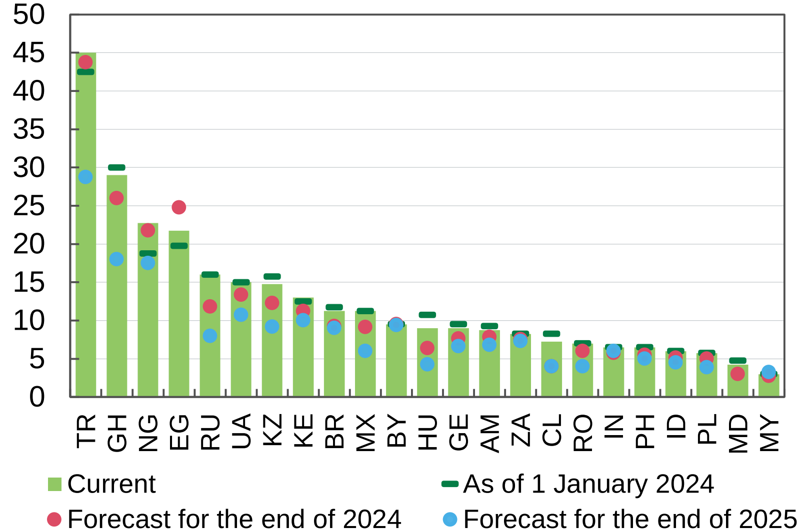
Both major CBs and EM CBs are expected to cut interest rates more moderately given the relative persistence of inflation

The expected time of the ECB and the Fed policy rate cuts in 2024, % of respondents



Source: Reuters poll, end of February 2024.

Key policy rates in selected EM countries, %



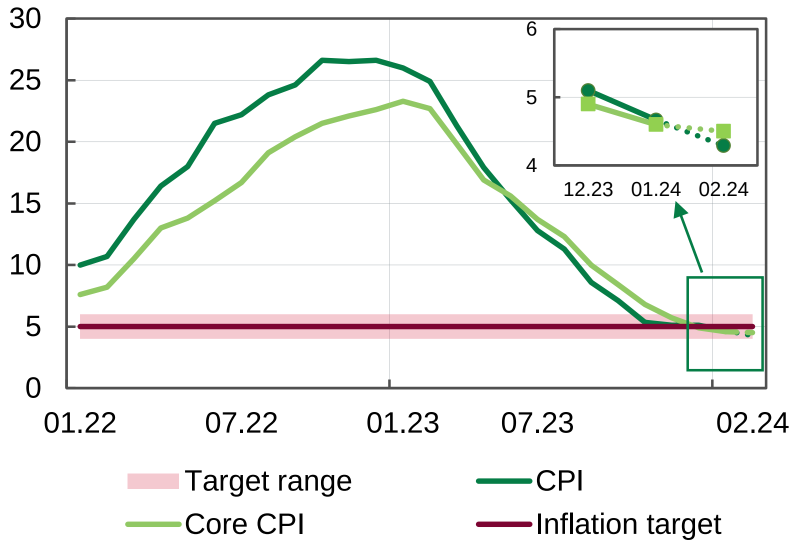
Source: official web pages of central banks, Focus Economics, Oxford Economics, as of 29.02.2024.

- **The Fed** and **the ECB** have left their rates unchanged, are transmitting a cautious sentiment on near-term rate cut prospects amid uncertainty over steady inflation slowdown. Expectations for the start of the monetary policy easing have been pushed to June. Against this backdrop, the yields on 10-year US and German bonds rose to ~~a~~ maximum levels since the end of November 2023 (4.33% and 2.46%, respectively)
- **The EM CBs`** rate cutting cycle continues. At the same time, some CBs note the need for a cautious approach to further easing, while the CB of **China** has cut the long-term interest rate at a record pace (by 25 bps). The CB of **Turkey** has completed the monetary policy tightening, but is ready to continue if a significant deterioration in the inflation outlook is expected

Ukraine: Inflation

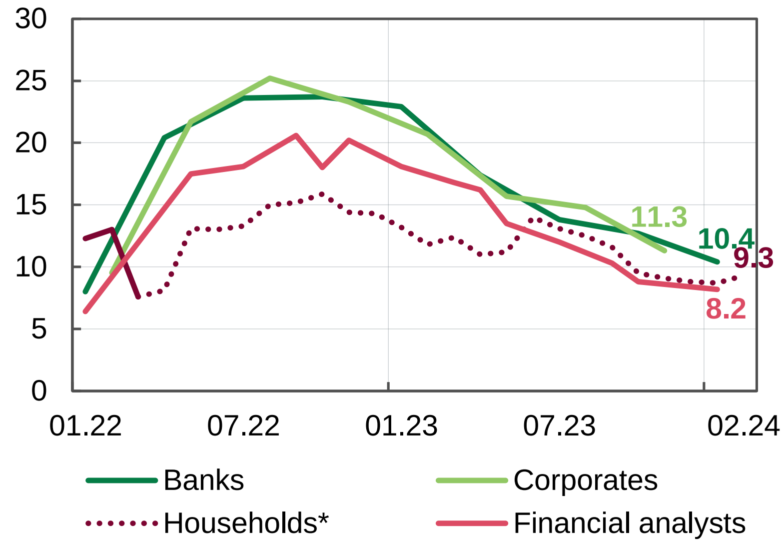
Consumer inflation continued to decrease as expected

Inflation* and inflation target, % yoy



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

Inflation expectations for the next 12 months, %

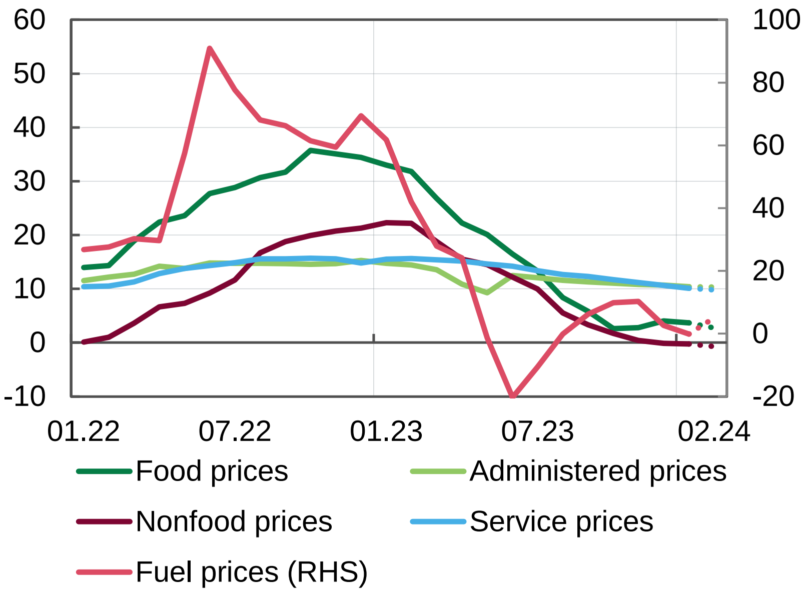


* The dotted line indicates a change in the method of survey for a telephone interview.
Source: NBU, Info Sapiens.

- The actual consumer inflation in January was below the trajectory of the NBU's forecast published in the January 2024 Inflation Report. The decline in inflation was due to a significant supply of certain food products and effects from the strong 2023 harvests, moratorium on raising some utility tariffs, and a slowdown in the growth of global crude oil prices
- Core inflation also slowed, but was somewhat higher than forecasted trajectory. The easing of underlying inflationary pressures was facilitated by the reduced pressure from the business costs, in particular for raw materials and logistics, the situation in the FX market remaining under control, and improved inflation expectations
- According to the NBU's estimates, inflation continued to decline in February. At the same time, the favorable effects of temporary factors that eased inflationary pressures are gradually tapering off, and pressure from increased wages will fuel price growth

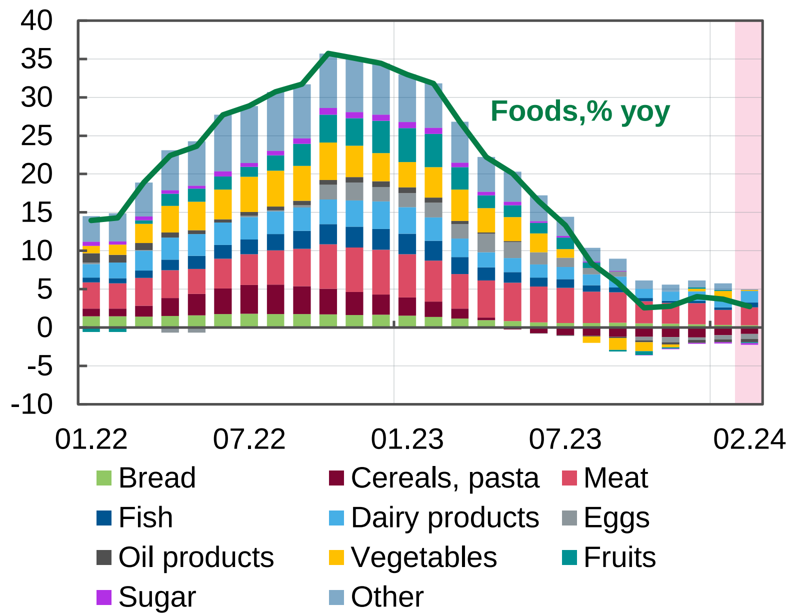
The prices for nonfood products continued to decrease, while those for foods somewhat slowed

Selected CPI components*,% yoy



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

Contributions to the annual change in food prices*, pp

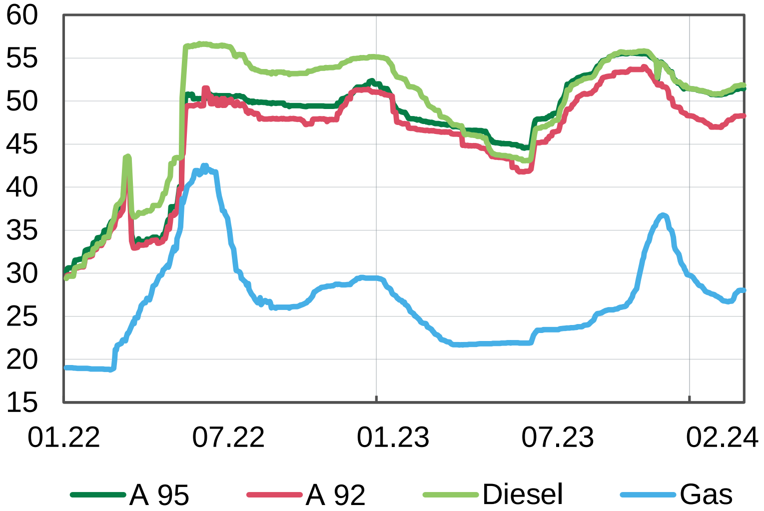


* Data for February reflects nowcast.
Source: SSSU, NBU staff estimates.

- A significant supply of food products amid warmer weather conditions, further effects from the large harvests of 2023, and the reorientation of certain producers (in particular of eggs and milk) to the domestic market, restrained the growth of food prices
- On the other hand, the growth in prices was fueled by a reduction in the supply of high-quality products (in particular, borshch vegetables), a switch to more expensive greenhouse products (tomatoes), as well as smaller volumes of imports from Poland (cheeses, fermented dairy products)
- Nonfood prices decreased slightly, primarily due to a deeper decline in prices for clothing and footwear. Growth in services prices slowed, primarily amid eased pressure from the business costs for raw materials and energy

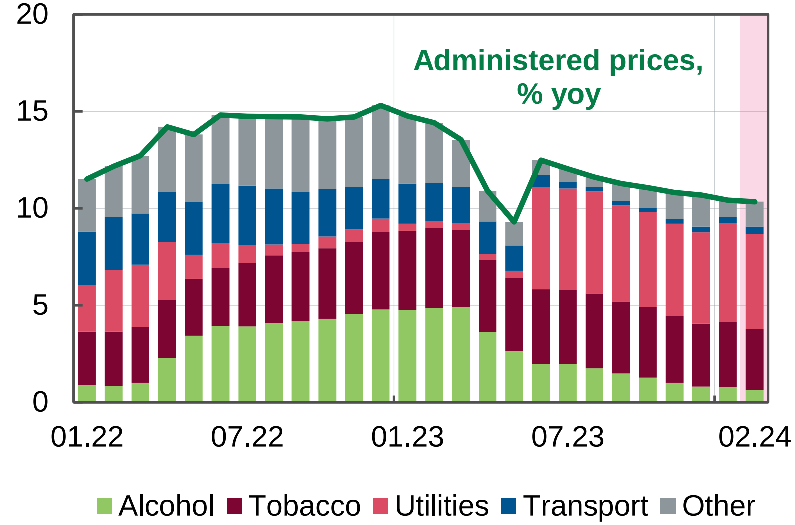
The growth rate of administered inflation slowed down, while fuel prices remained at last year's levels

Fuel prices, UAH / L



Source: minfin.com.ua, NBU staff calculations.

Contributions to the annual change in administered prices, pp



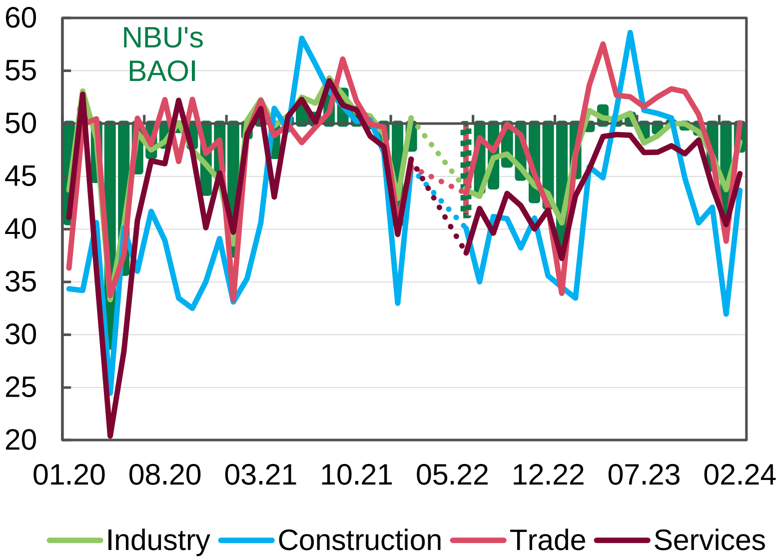
* Data for February reflects nowcast.
Source: SSSU, NBU staff estimates.

- Fuel prices were almost at the level of January last year. This was primarily due to lower global crude oil prices and the diversification of fuel supply routes, in particular autogas
- The growth in prices for alcoholic beverages and tobacco products slowed further on the back of a reduced pressure from raw material costs and continued pressure from the shadow market supply
- The administered inflation was also restrained by a moratorium on raising utility prices
- Meanwhile, price growth accelerated for some medicines amid higher import prices

Ukraine: Economic activity

In February, the revival of economic activity continued thanks to the stable situation in the energy sector,...

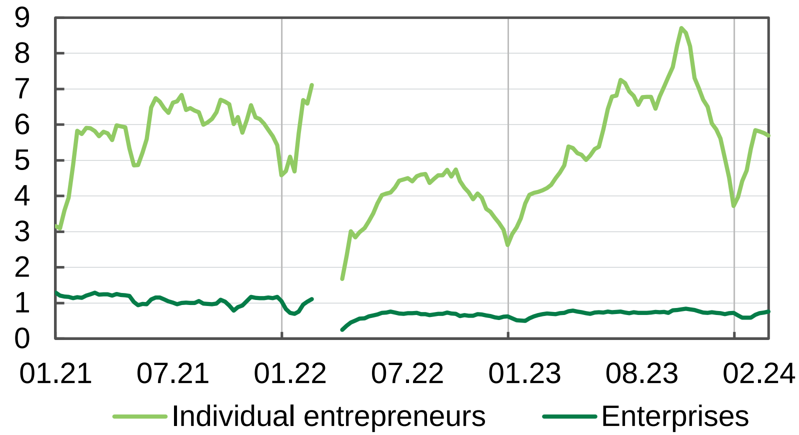
NBU's business activity outlook index, p



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

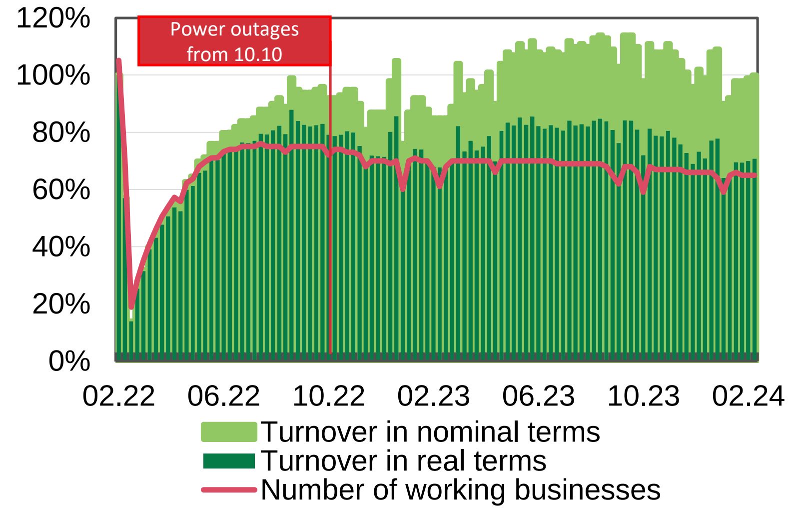
- The situation in the energy sector was stable, which given mild weather made it possible to resume the export of electricity
- Thanks to warmer weather conditions, construction works have picked up
- Businesses are overall optimistic about 2024. According to a survey of SMEs conducted by the EBA, 79% of respondents plan to expand their business in 2024, primarily due to the opening of new types of production (30%)

New business registrations (4-week moving average), thousands



Source: opendatabot.ua.

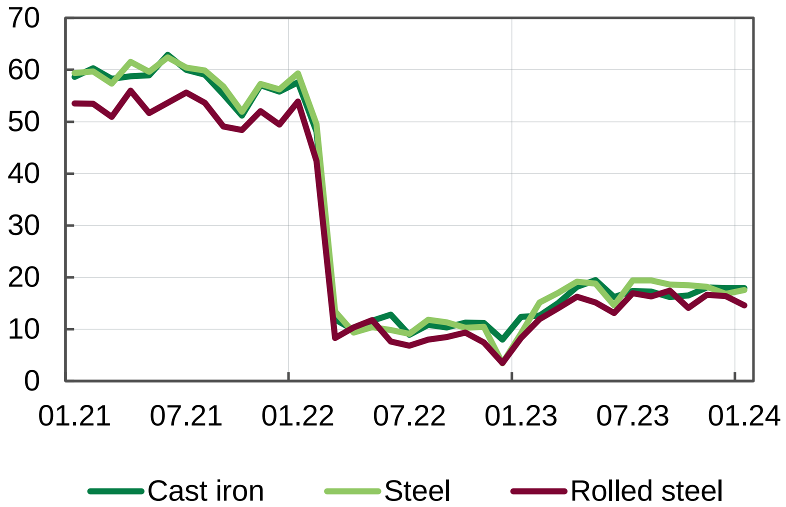
Performance indicators of the restaurant business, %



Source: SSSU, Poster, NBU staff estimates.

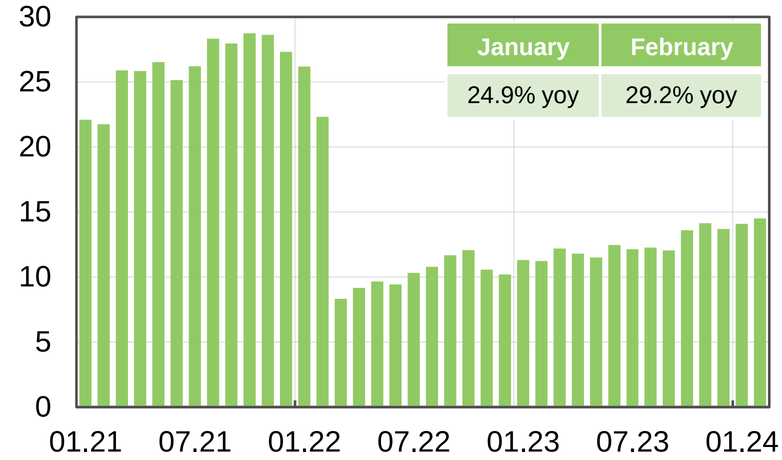
... the growth of maritime and railway transportation …

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



Source: Ukrmetalurgprom.

Rail freight transportation, million tons



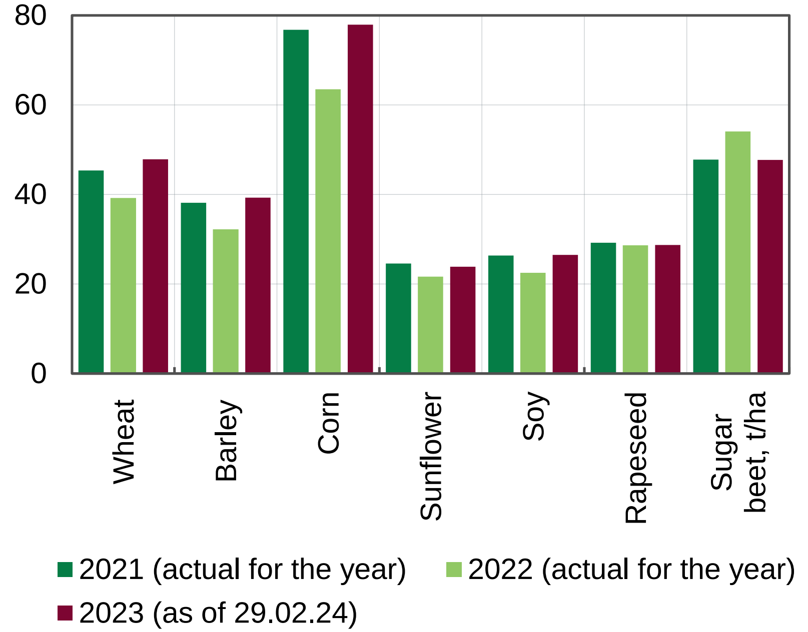
Source: SSSU, Rail.insider, UZ.

- Despite the blockade of the Polish border, the transport industry continued to grow in February thanks to the increase in rail (+3% mom and + 29.2% yoy) and sea transportation (+27% mom) and partial reorientation of motor vehicles to other routes
- Growth in sea transportation and a stable energy situation contributed to an increase in the loading of MPPs, although war-related risks and shortages of personnel restrained the recovery of metallurgy
- In February, the growth of gas production continued, new gas and ore mining facilities were introduced
- The loading of engineering enterprises was facilitated by the growing needs of the defense and mining sectors

… and warmer weather

- At the end of February, the sowing of spring crops started. This year, the soybean and sugar beet sown area is expected to increase, while the corn area is expected to decrease
- At the same time, harvesting of the previous crop's corn continued. As of 29 February, 28.95 million tons were threshed (almost 92% of the sown area was collected, which is 3 percentage points higher compared to late-2023) with a yield of 77.9 t/ha
- Although the cattle herd continued to decrease as of early February, the volume of production of some livestock products increased due to higher productivity; the poultry industry continued to recover thanks to the establishment of new sales channels and relatively cheap feed

Productivity of the main agricultural crops, centner/ha

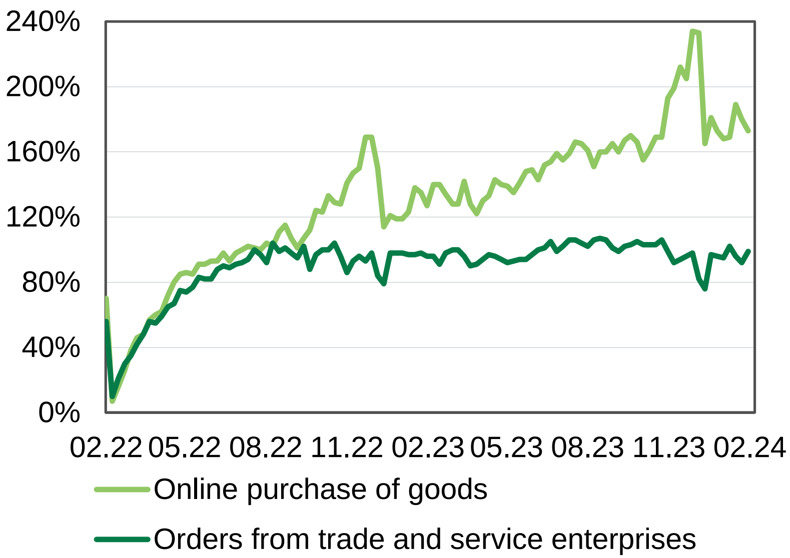


Source: MinAgro.

- In February, the volumes of meat and dairy processing slowed down somewhat due to a seasonal decrease in consumer activity
- Before the start of the new agricultural season, food industry enterprises and fodder producers maintained high investment activity; at the same time, lower prices on export markets held back edible oil refining
- Investments in agricultural infrastructure, in particular domestic vegetable growing, continued against the background of logistical difficulties caused by the war

In February, trade growth slowed somewhat due to logistical difficulties and a certain worsening of consumer sentiments

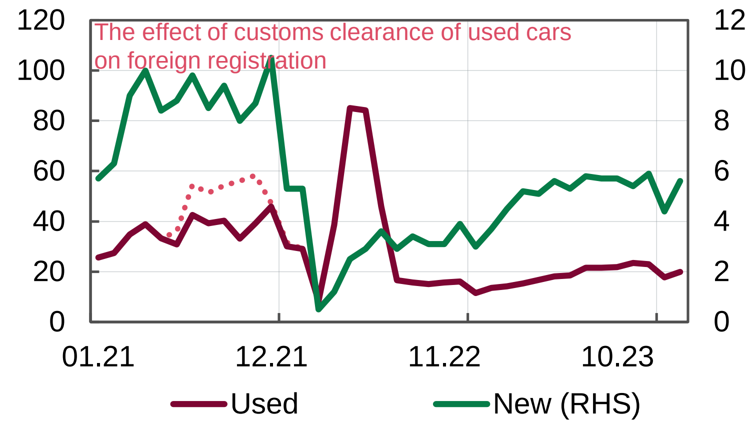
The number of orders from entrepreneurs, % to the pre-war level



Source: Opendatabot (Khoroshop and RemOnline services).

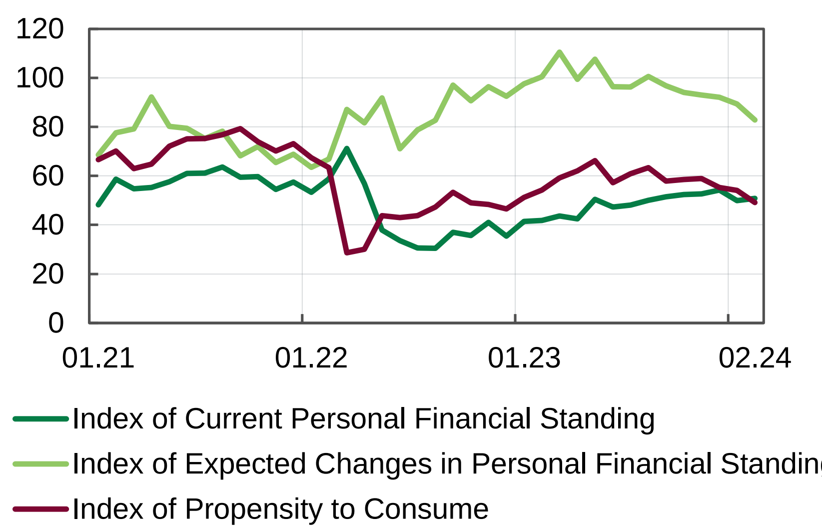
- In February, the activity of trade enterprises slowed down somewhat. The activity of the industry was restrained by problems with the delivery of products due to the blockade of the Polish border, and a shortage of personnel
- Sales of new passenger cars in February increased by 28.4% mom and by 50% yoy. The sales of new cars lagged behind the level of pre-war February 2021 by only 11%

The first registration of passenger cars, thousand units



Source: Ukravtoprom.

Components of the consumer sentiment index, p

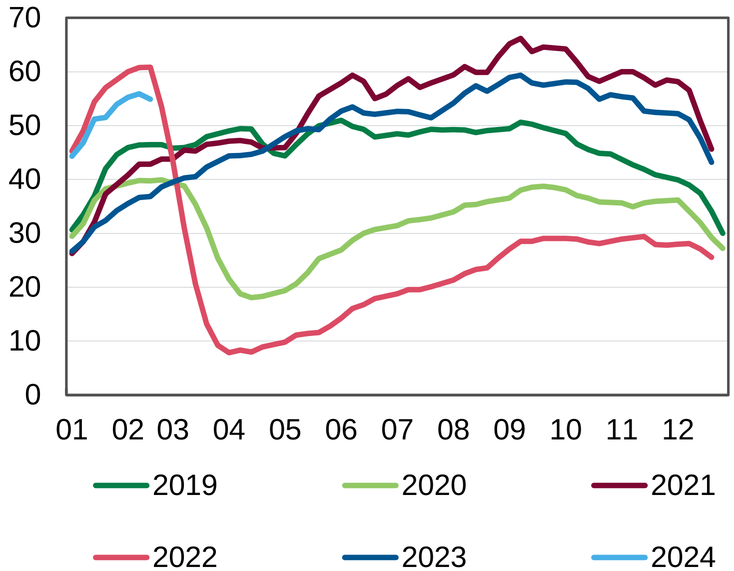


From March 2023, the survey method was changed from face-to-face to telephone interviews. Source: Infosapiens.

Ukraine: Labor market

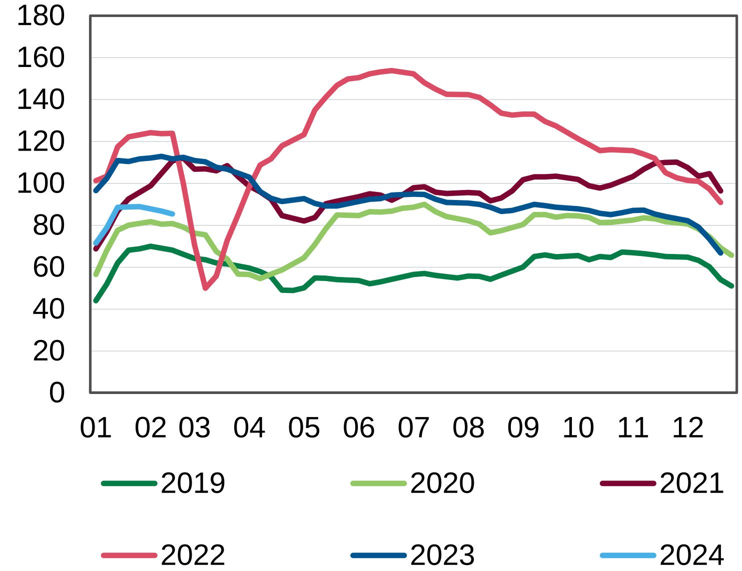
Labor market activity has been gradually increasing since the start of the year

Number of new job openings, three-week moving average, thousands



Source: work.ua, NBU calculations.

Number of new resumes, three-week moving average, thousands

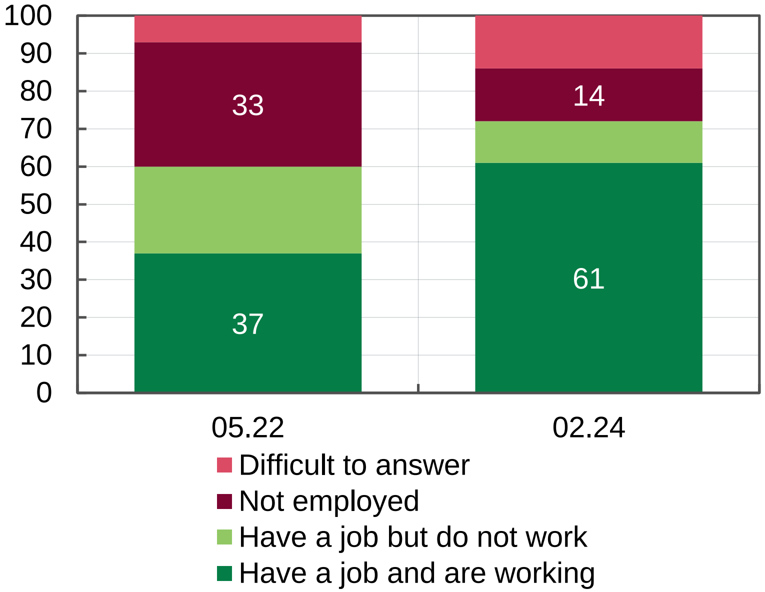


Source: work.ua, NBU calculations.

- Since the start of 2024, the number of new job openings has been growing and even exceeded the level of 2021. At the same time, the number of resumes is significantly lower than in 2022 and 2023
- This may indicate that businesses have largely adapted to the war situation and need more staff to continue resuming operations. However, the supply of labor remained restrained due to migration and mobilization. It is also likely that job seekers have either found a job or given up looking for one due to personal circumstances

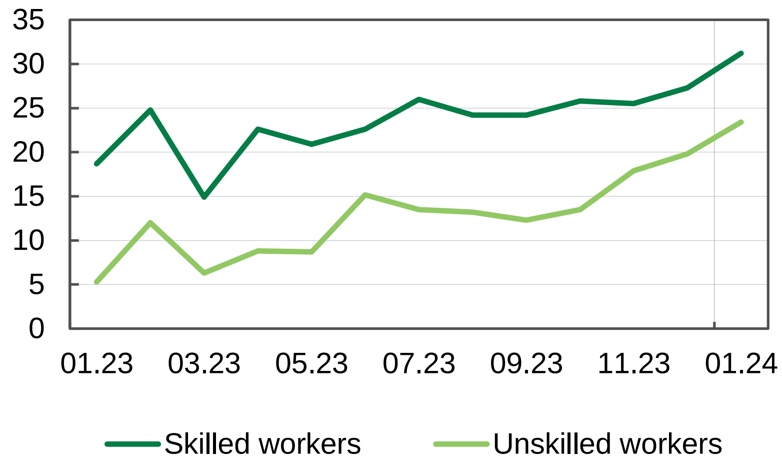
The shortage of employees in certain types of activities is rising

Employment status, % of responses



Source: Gradus.

Index of difficulties with the workforce*

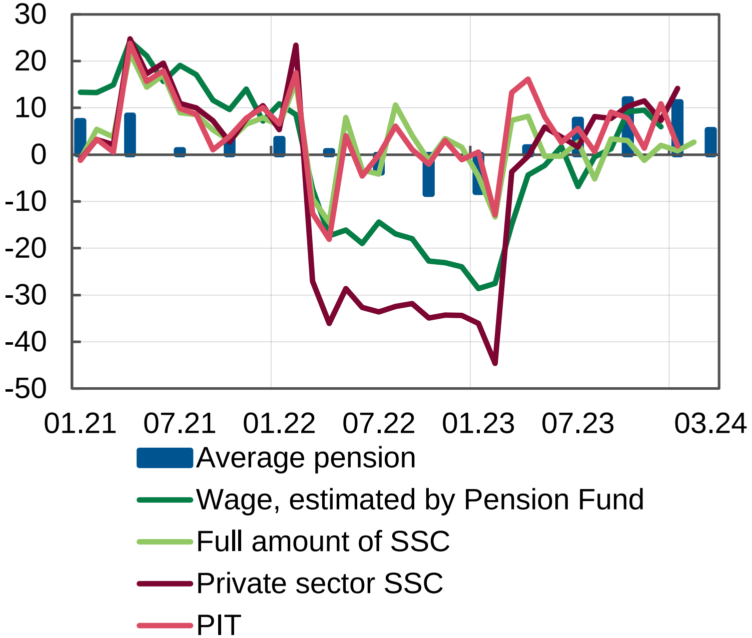


* Difference between the shares of answers "finding employees has become more difficult" and "finding employees has become easier".
Source: IER.

- According to surveys, a significant portion of the population is employed, while the share of those who are not working has significantly decreased compared to the start of the full-scale war
- In early 2024, according to surveys, businesses continued to report an increasing shortage of both skilled and unskilled workers. To overcome this problem, employers are more actively attracting groups of people who were previously out of the labor force. Thus, according to work.ua, the number of job openings for veterans tripled between January 2022 and January 2024; for pensioners - doubled, for people with disabilities – increased by 22%.
- At the same time, the number of IT specialists continued to decline: according to DOU, in January 2024, their number was 81.8 thousand, which is 12% less than in January 2023

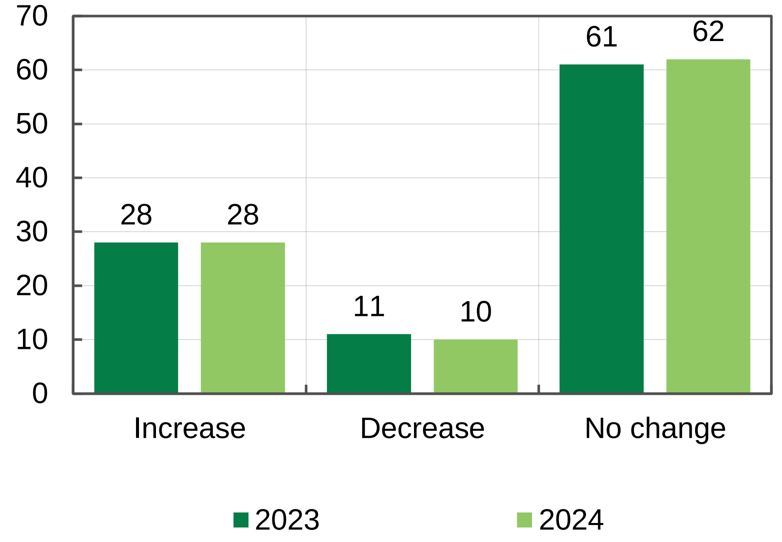
Real household incomes grew due to higher private sector wages and pension indexation

Indirect indicators for estimating real household income*, % yoy



* Deflated by CPI. ** The private sector SSC is calculated as the difference between total SSC and SSC on wages from the consolidated budget.
Source: Pension Fund of Ukraine, STSU, SSSU, NBU calculations.

SMEs' plans to change employee wages in 2023 and 2024, % of responses



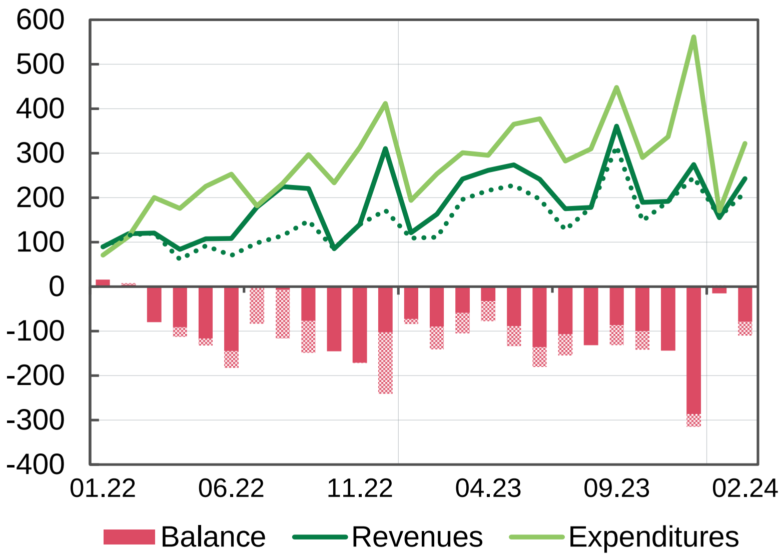
Source: EBA.

- According to the EBA survey of SMEs, almost a third plan to increase wages in 2024, although the vast majority do not plan any wage changes
- Indexation of pensions in March by about 8% will also support household incomes

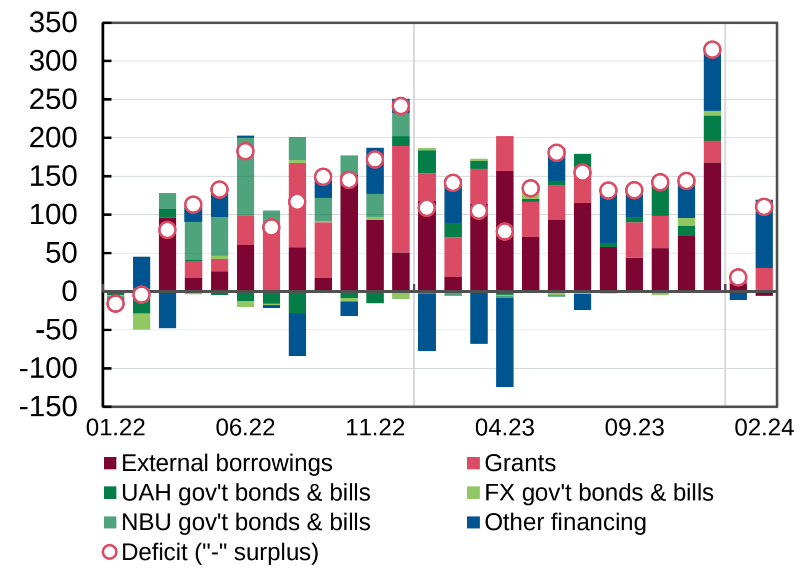
Ukraine: Fiscal sector

The moderate deficit was primarily financed through previously accumulated funds and domestic borrowings

Main state budget indicators* (monthly), UAH bn



State budget balance financing (excluding grants from revenues), UAH bn**

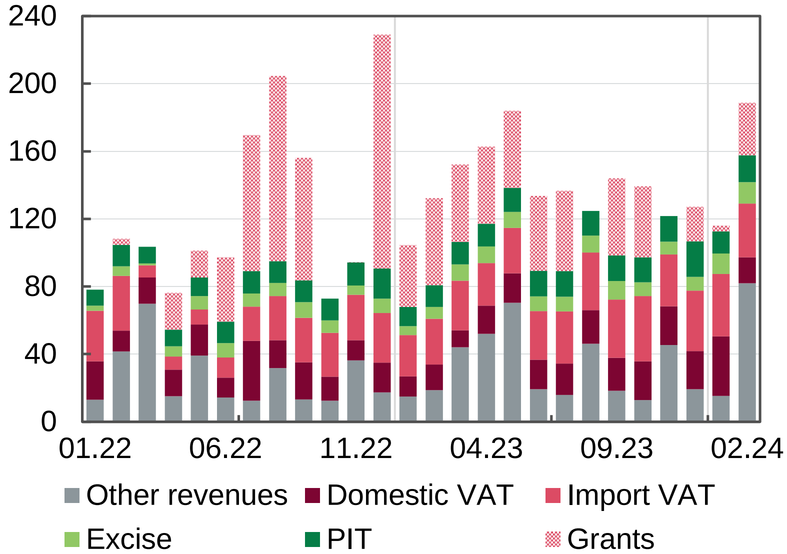


* Dotted and patterned fillings show relevant indicators excluding grants. Balance includes net lending. ** Debt transactions are net borrowings. Other financing represents active operations (in particular, includes the change in volumes of gov`t funds) and privatization proceeds.
February – preliminary and high-frequency data from the MFU website. NBU calculations based on the MoF's website data.
Source: Treasury, MoF, NBU staff calculations.

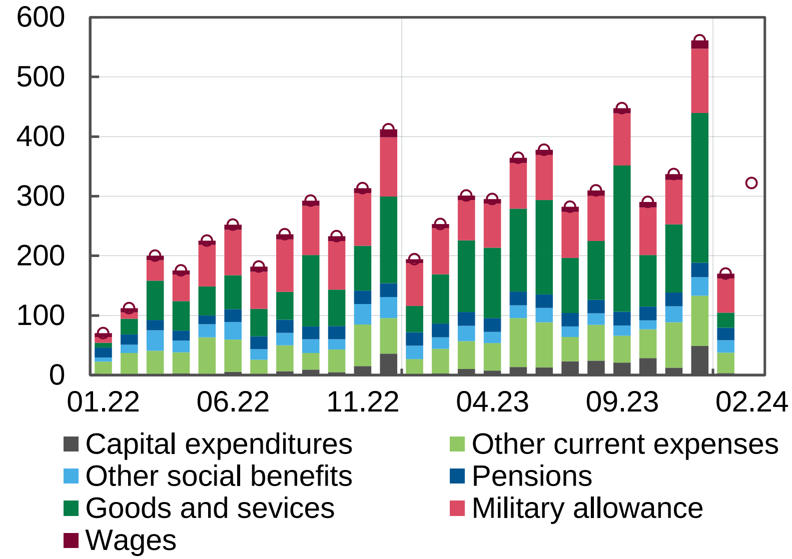
- Despite the widening deficit in February, a rather moderate negative balance of the state budget was formed for the first two months of the year. This primarily reflected tighter expenditure stance due to lower volumes of international financial aid
- In total, about USD 1.2 bn was received from international partners in January-February, with USD 0.9 bn in grants. The majority of funds were received in February
- The remaining budget needs were financed through previously accumulated funds in government accounts and domestic borrowings

Due to the uncertainty regarding international aid, the government took steps to increase revenues and tightly controlled spending

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



Expenditures of the state budget, UAH bn (economic classification)



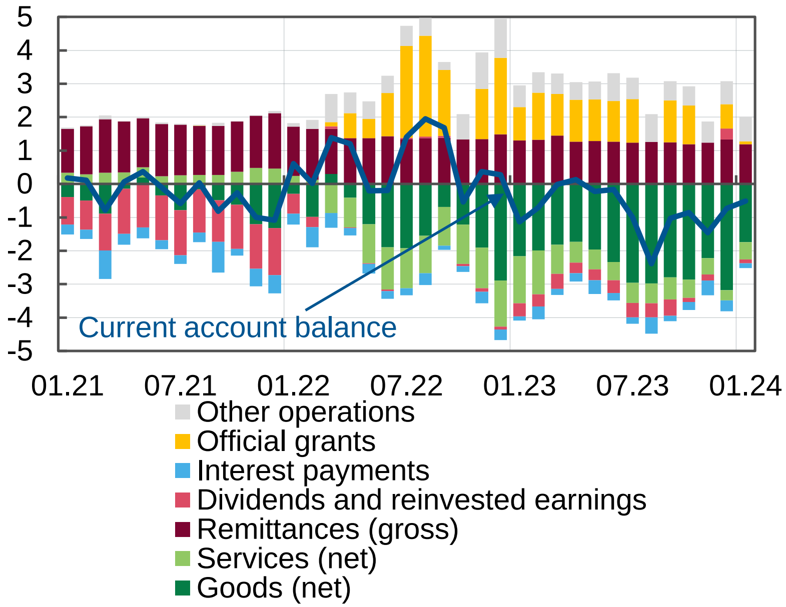
* February – preliminary data from the MFU website. NBU calculations based on the MoF's data.
Source: Treasury, MoF, NBU staff calculations.

- At the beginning of the year, revenues grew, reflecting the further revival of economic activity, a slightly weaker hryvnia exchange rate, and administrative measures (in particular, an increase in the CIT rate for banks, advance transfer of dividends from certain SOE – 50% of the annual dividend amount). In the meantime, the negative impact of the blockade of the western borders on proceeds from imported goods persisted
- Expenditures were under heightened control and were primarily directed towards priority areas (defense and security, social care). In February, with partial easing of uncertainties surrounding external financing, the government increased expenditures, including possibly capital spending

Ukraine: Balance of Payments

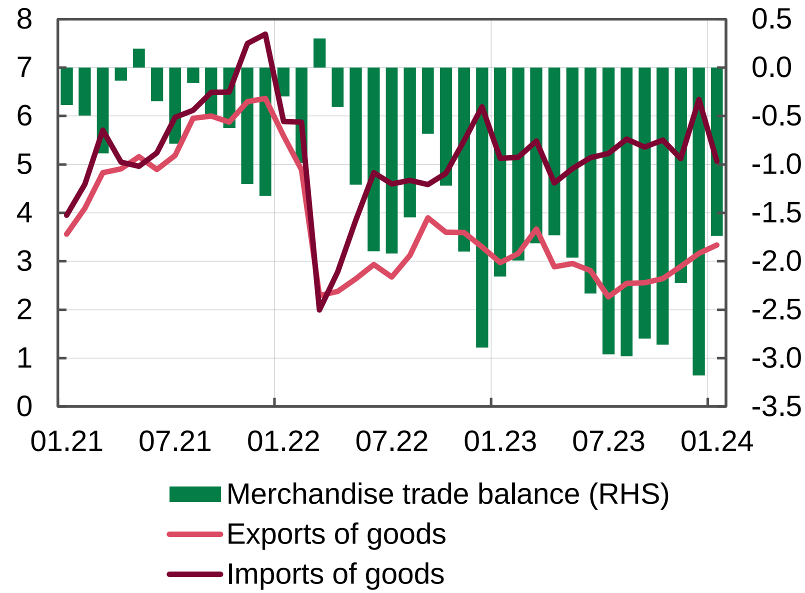
The narrowing of the trade in goods deficit offset lower amounts of financial aid in the form of grants

Current account balance, USD bn



Source: NBU staff calculations.

Merchandise trade balance, USD bn

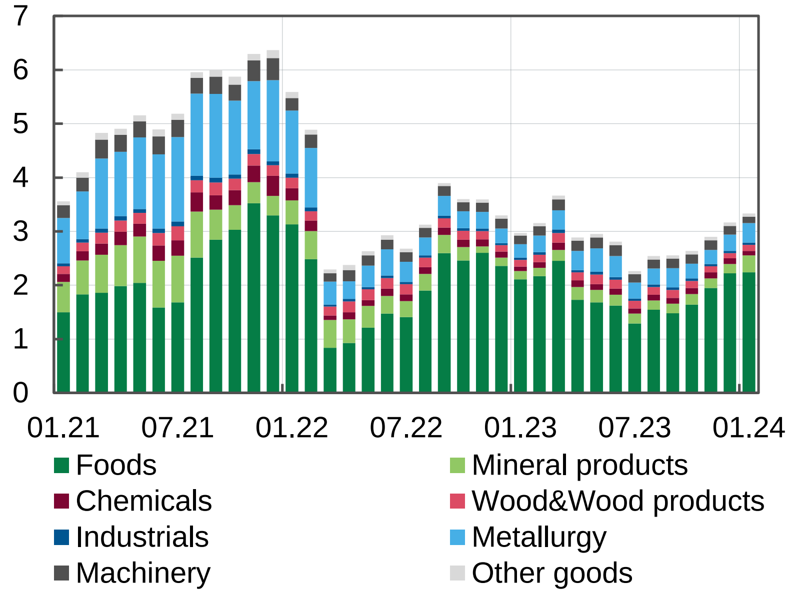


Source: NBU staff calculations.

- In January, the trade in goods deficit narrowed to USD 1.7 bn (from USD 3.2 bn in December), primarily due to a continued increase in the exports of goods and a reduction in imports
- This helped offset lower amounts of grant financing from international partners. Consequently, the current account deficit also saw a slight reduction, reaching its lowest value since July 2023

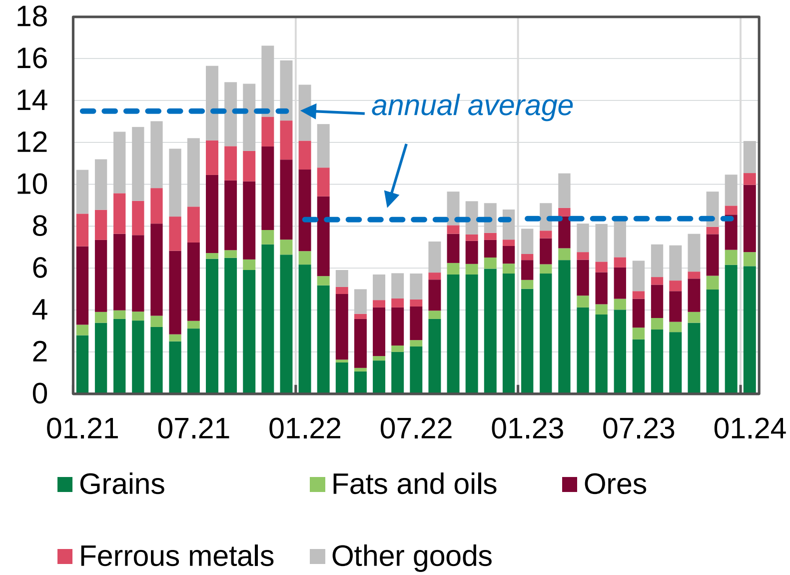
An unhindered functioning of the sea corridor facilitated the growth of exports

Exports of goods, USD bn



Source: NBU staff calculations.

Exports of goods, t m

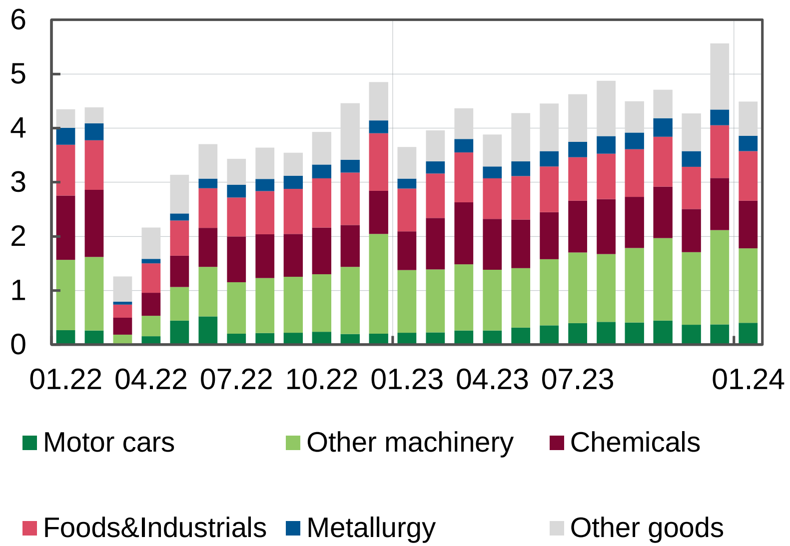


Source: SCSU, NBU staff calculations.

- In January, a record 12 million tons of goods – the highest volume throughout the full-scale invasion period – were exported, with 8.7 million tons transported by sea
- The highest growth was recorded in iron ore supplies: its export volumes almost doubled compared to December – to 3.2 million tons and were the largest since March 2022
- The exports of ferrous metals also increased, but at a much lower rate due to significant domestic demand and high security risks in the areas where production facilities are located. Export volumes of other goods remained at the level of December

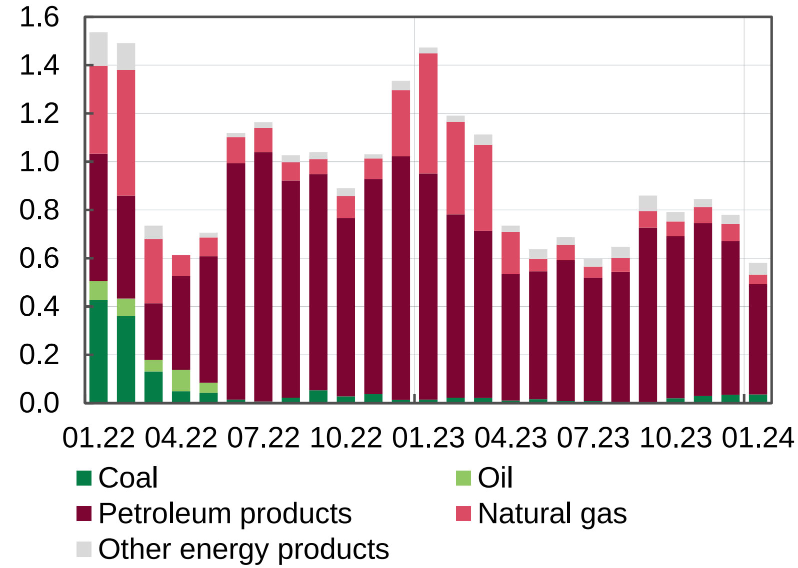
Merchandise imports dynamics in January mostly reflected seasonal factors

Non-energy imports, USD bn



Source: NBU staff calculations.

Imports of energy products, USD bn

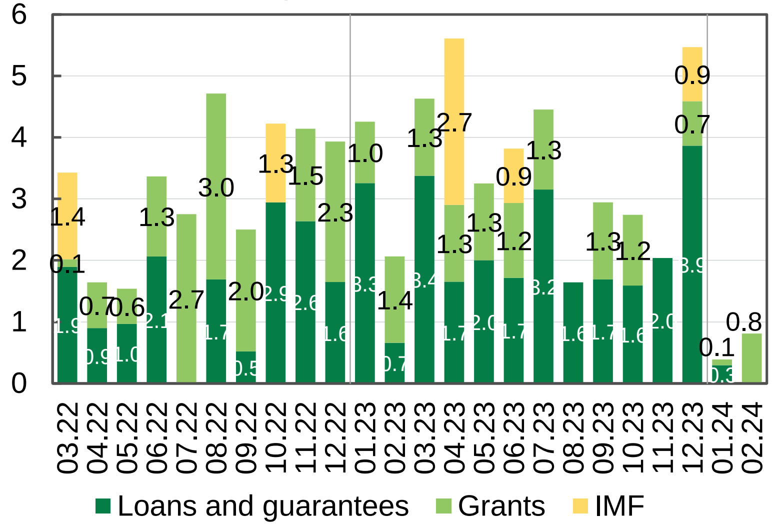


Source: NBU staff calculations.

- The import volumes decreased compared to December despite the blockade on western borders being lifted from January 16. The decline was in line with the seasonal trends and reduced budget expenditures. Due to the latter factor, purchases of specific machinery, pharmaceutical goods, and dual-use products were curtailed. Additionally, in line with the traditional January developments, the imports of certain foods (citrus, alcoholic beverages) decreased
- Seasonally low activity at the beginning of the year and oversaturation of the liquefied gas market in previous months influenced the dynamics of energy imports: purchases of oil products and gas contracted

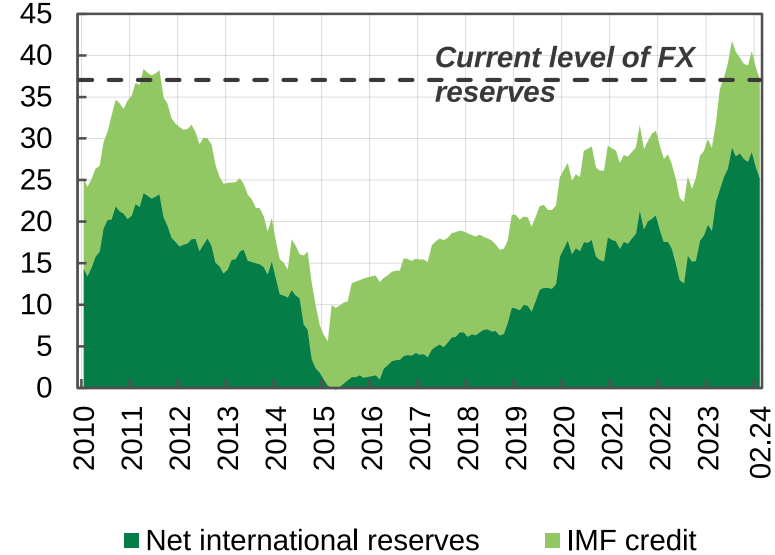
Due to lower disbursements of official financing, international reserves decreased, but they remained at a comfortable level

International financial assistance since the beginning of the full-scale war, USD bn



Source: NBU, MFU, open sources data.

International reserves, USD bn



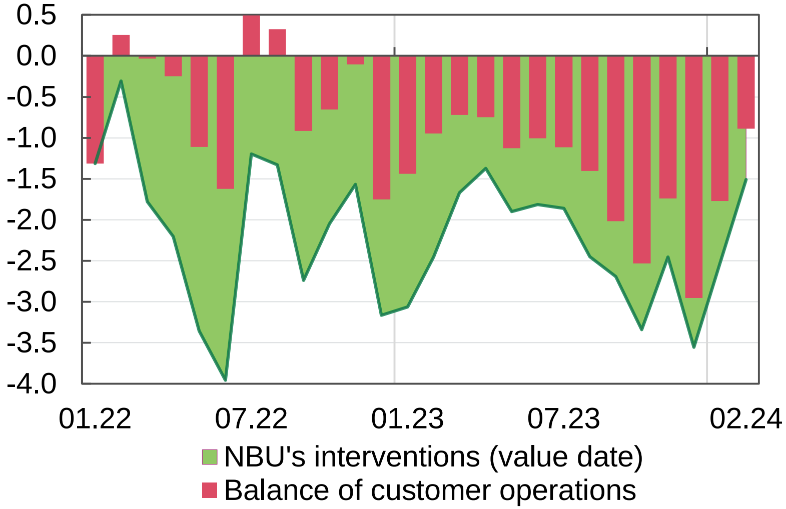
Source: NBU.

- In January, only USD 0.4 bn of official financing was received. Consequently, the public sector saw a capital outflow. Coupled with sustained high FX demand from the households, this resulted in an overall capital outflow under the financial account
- As a result, gross reserves decreased by 4.9% from the beginning of the year to USD 38.5 bn at the end of January
- In February, USD 0.8 bn of international financing was received. In addition, the NBU interventions have decreased. Although international reserves continued to decline, reaching USD 37.1 bn by the end of the month, they have exceeded the level of the previous year

Ukraine: Monetary sector

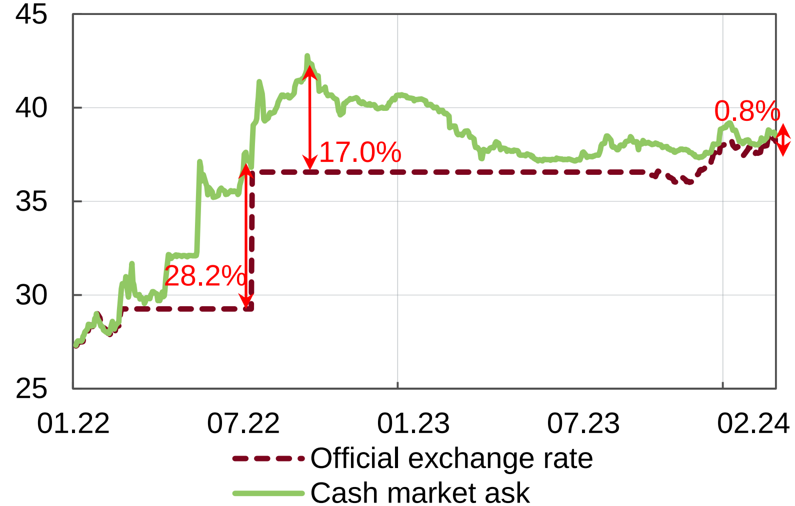
In February, the hryvnia exchange rate moved in both directions affected by the situational market conditions

Bank clients' FX transactions* and NBU interventions, USD bn



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

Hryvnia exchange rates, UAH per USD

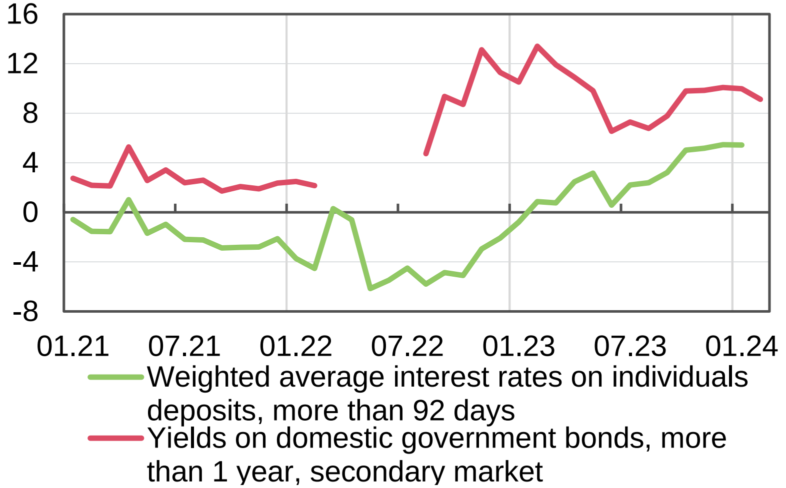


Source: NBU, open data sources.

- In February, the FX demand decreased compared to January. This was due to restrained budget expenditures, a stable situation with exports, including thanks to the unhindered functioning of the sea corridor and resumed exports of electricity, and improved households' exchange rate expectations amid partially eased uncertainties regarding external financial assistance
- The official exchange rate of the hryvnia against the US dollar remained almost unchanged compared to January. The spread between the cash market and the official exchange rates did not exceed 1.4%, narrowing to 0.8% by the end of the month
- As a result, the net NBU's FX sales declined to USD 1.5 bn
- Given the sustainable market conditions, the NBU continued to ease currency restrictions, while updating and calibrating certain measures

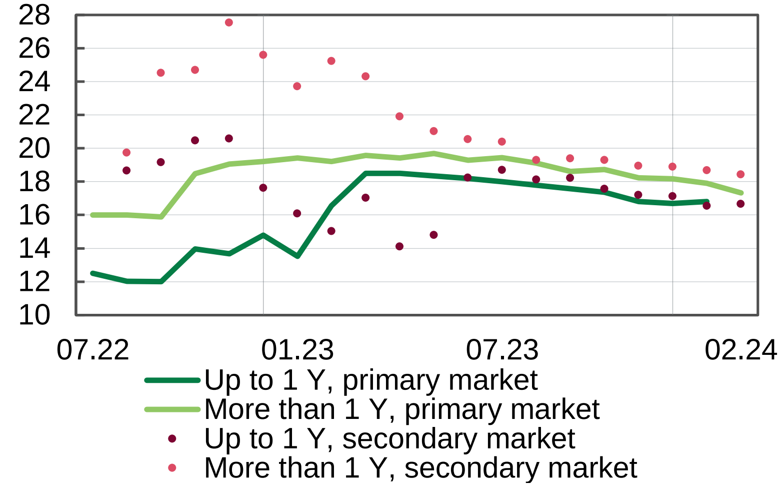
The yields on hryvnia instruments remained positive in real terms

Real interest rates* on hryvnia domestic government bonds and deposits of individuals, %



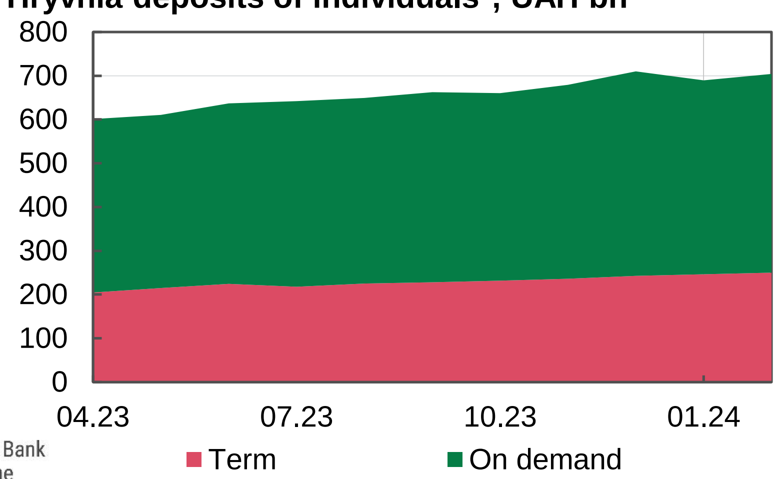
* Deflated by households' 12-month-ahead inflation expectations. Source: NBU calculations.

Yields on hryvnia domestic government T-bills & bonds, % per annum



Source: NBU.

Hryvnia deposits of individuals*, UAH bn



* Preliminary data. Source: NBU.

- Thanks to the NBU measures, the yields on hryvnia instruments remained positive in real terms
- As a result, the demand for hryvnia assets stayed solid. In particular, after a seasonal decrease in January the growth of hryvnia deposits of individuals rebounded in February