National Bank of Ukraine

Monthly Macroeconomic and Monetary Review

April 2024

Monetary Policy and Economic Analysis Department

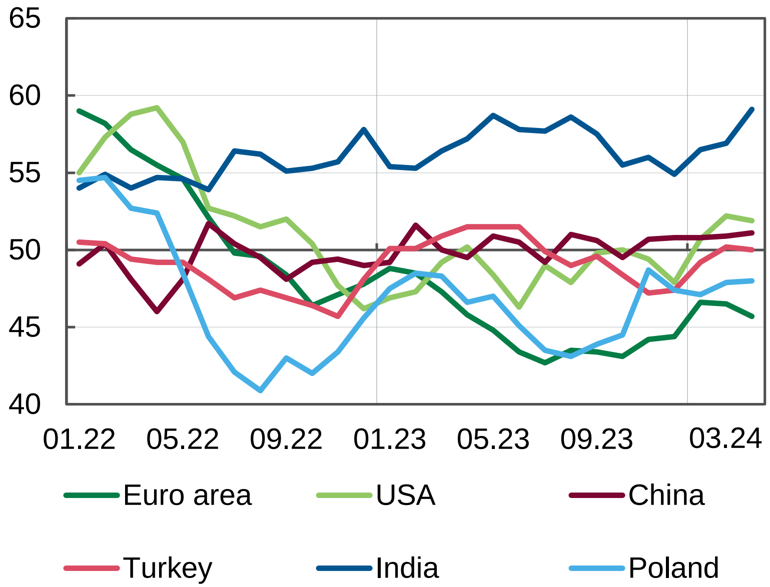
Summary

- **Economic growth in Ukraine's main trading partners (MTPs) is recovering and inflationary pressures remain resilient.** Global energy prices fluctuated within a narrow range, with the available supply being sufficient to meet demand. Both major CBs and EM CBs are expected to cut interest rates more moderately given the relative persistence of inflation
- **Consumer inflation in Ukraine further slowed down in February –** headline inflation to 4.3% yoy, core inflation to 4.5% yoy. This reflected a more ample supply of certain food products, including due to warmer weather and second-round effects from larger last year's harvests, as well as lower pressure from business costs for raw materials and energy. Along with the situation in the FX market remaining under control, these factors also eased underlying inflationary pressures. According to the NBU's estimates, inflation kept declining in March
- **Business activity expectations continued to improve in March**. Weather conditions favored the sowing campaign and construction works. Consumer demand remained solid, and animal husbandry continued to recover. The operation of the sea corridor supported transportation and improved expectations in metallurgy. At the same time, increased shelling at the end of the month, in particular those aimed at energy infrastructure, likely slowed economic recovery in both industry and service sectors
- **Labor demand continued to grow, while supply remained tight**, in part due to a further increase in the number of migrants. **Personnel shortages put upward pressure on wages**. Household income growth is also supported by budget expenditures, pension indexation, and minimum wage increases
- **In March, the state budget deficit (excluding grants from revenues) was moderate,** despite the record amount of international aid. Domestic borrowings also remained an important source of financing budget needs
- In February, **narrowing of the current account deficit continued**: the reinstatement of the blockade of the western borders pushed the imports of goods down, and the gradual adaptation of forced migrants abroad led to further reduction in the imports of services under the "travel" item. Less regular disbursements of official financing led to a decrease in gross reserves to USD 37.1 bn as of end of February. However, in March, reserves increased again due to significant financial inflows from partners
- **The situation in the FX market has remained under control and exchange rate fluctuations were moderate.** In line with the principles of managed flexibility regime, the hryvnia exchange rate moved both in the direction of weakening and strengthening. The NBU resumed the key policy rate cut cycle earlier than expected, **however the yields on hryvnia assets in real terms remained positive**

External Environment

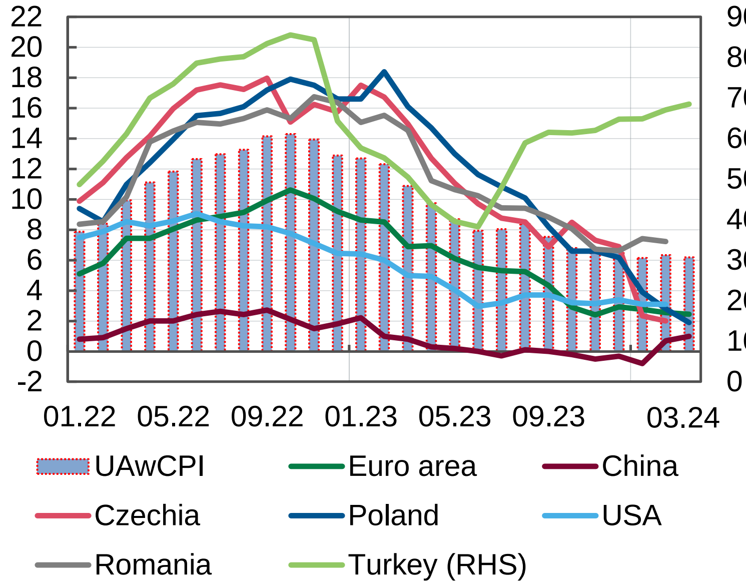
Economic growth in Ukraine's main trading partners (MTPs) is recovering and inflationary pressures remain resilient

Manufacturing PMI of selected countries



Source: S&P Global.

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

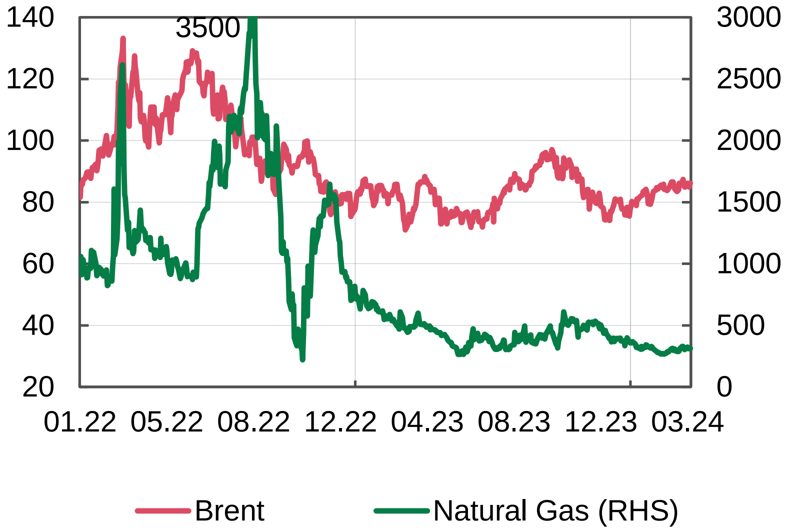


Source: national statistical offices, NBU staff estimates.

- Leading indicators showed further growth in manufacturing in major economies – Ukraine's MTPs – and a slower pace of decline in the CEE and Eurozone, primarily due to a gradual reduction in inventories. At the same time, the services sector remained the growth engine in all countries. Rerouting of ships due to the Red Sea crisis has had little effect on supply chains so far
- Business confidence reached its highest level in two years, driven by expectations of lower interest rates and an easing of inflationary pressures
- However, inflationary pressures from Ukraine's MTPs (UAwCPI) remained elevated compared to pre-pandemic levels, primarily in the services sector. Inflation remained persistent due to pressure from higher wages amid strong labor markets

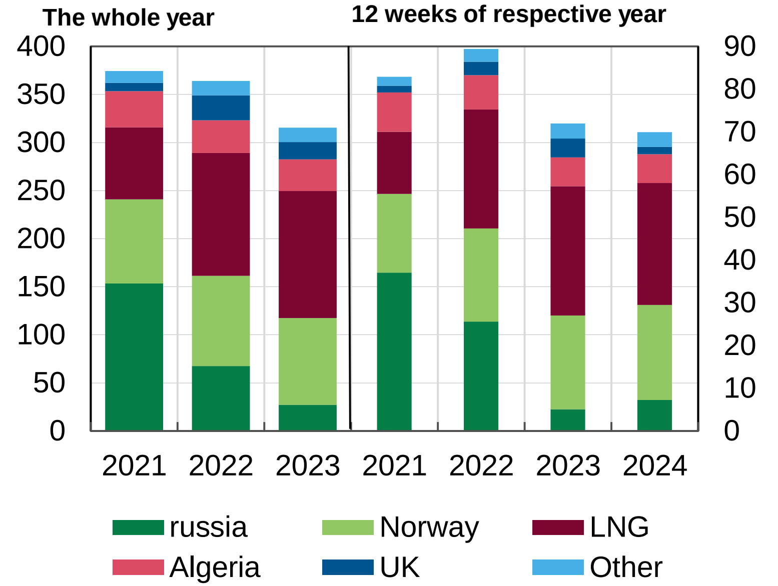
Global energy prices fluctuated within a narrow range, with the available supply being sufficient to meet demand

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



Source: Refinitiv.

Natural gas imports to the EU by origin, bcm

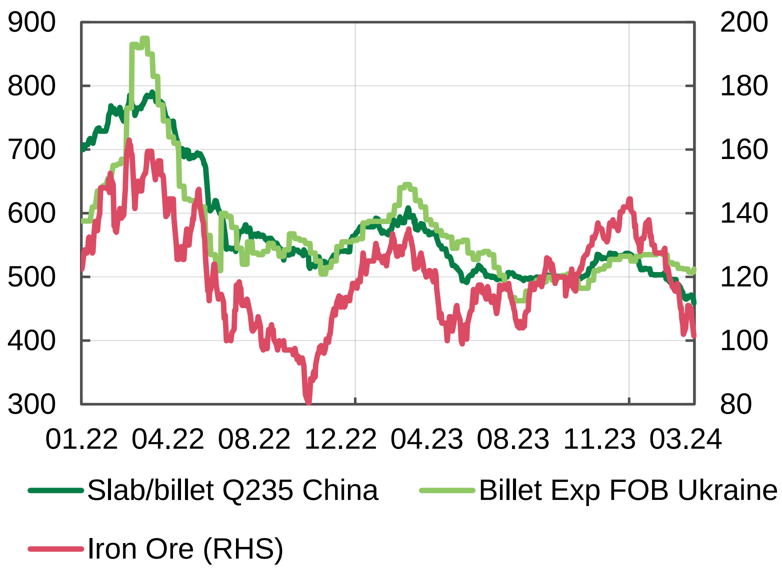


Source: Bruegel (russia, Norway, Algeria – pipelines).

- **Global oil prices.** Geopolitical tensions due to the conflict in the Middle East and attacks in the Red Sea increased upward pressure on prices. Additional factors included improved demand in the US and the effect of OPEC+ restrictions. However, still weak demand in most regions of the world and active production in the US, Libya, Iran, Angola, and Venezuela kept prices from rising
- **Gas prices in Europe**. Record stocks for the current period (59%) and the growth of wind power in Europe, projected mild weather, and stable LNG exports from the US put pressures on prices. However, an increase in spot demand from China, India and Southeast Asia in anticipation of hot summer weather and a likely cyclone-related supply constraint from Australia led to higher LNG prices in Asia. This, in turn, kept prices from falling in Europe

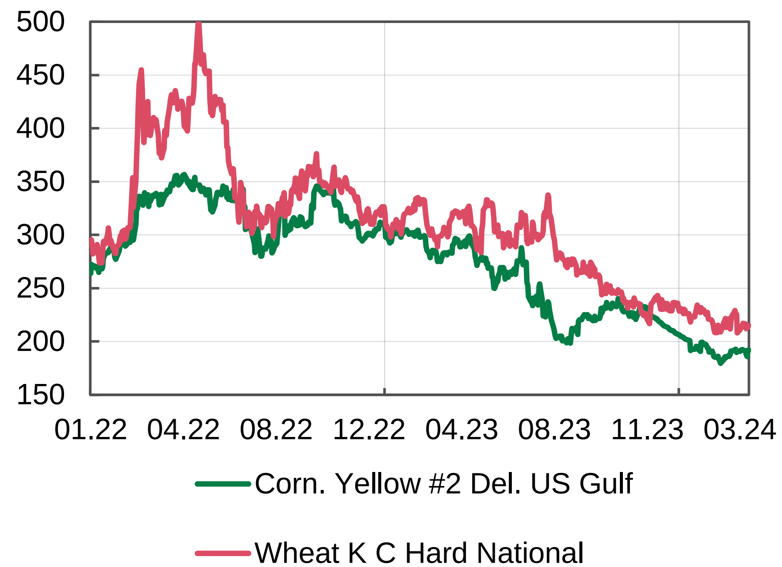
Global prices for steel and iron ore continued to decline, while grain prices stabilized at a relatively low level

Global steel and iron ore prices, USD/MT



Source: Refinitiv, Delphica.

Global grain prices, USD/MT

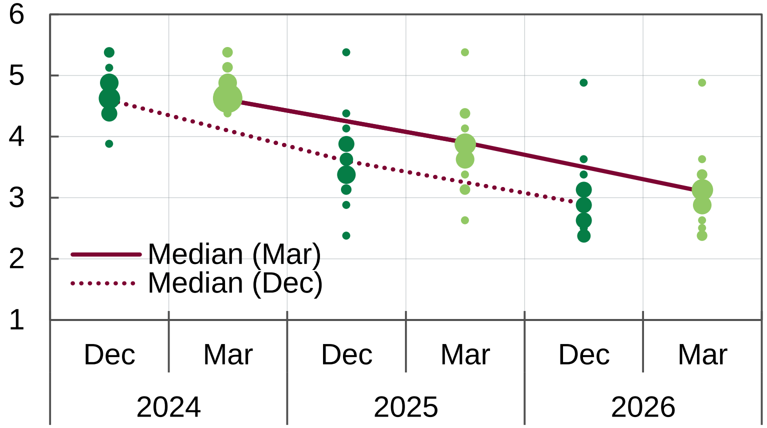


Source: Refinitiv.

- **Steel and iron ore fell in price** under pressure from sluggish demand in most regions of the world, despite the expected spring recovery (in particular due to Ramadan). An additional factor was a relatively steady increase in supply, which, in the face of weak demand and intense competition, led to further price declines
- **Wheat and corn prices fluctuated within a narrow range.** Significant inventory destocking by russia and Brazil ahead of the expected good new harvest put downward pressure on prices. In contrast, possible disruptions in grain supplies from the Black Sea, reduced planted areas in the US, and robust global demand kept prices from falling too far

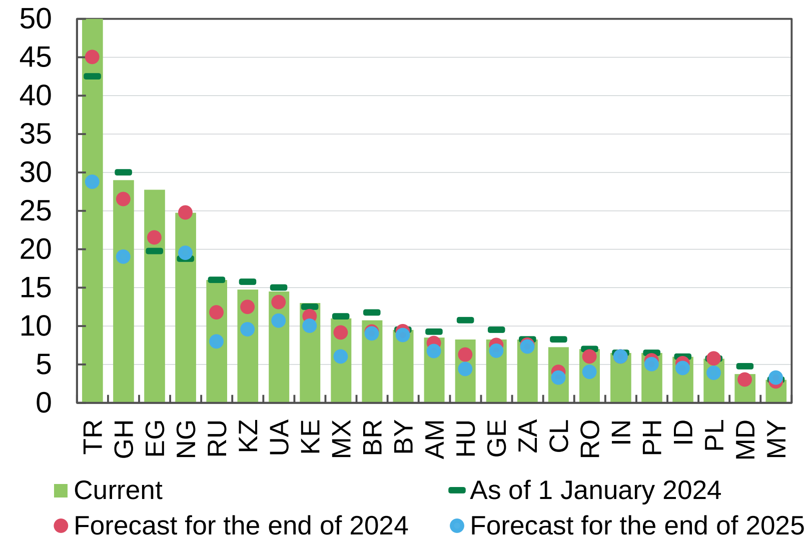
Both major CBs and EM CBs are expected to cut interest rates more moderately given the relative persistence of inflation

The number of FOMC* members that expect the respective policy rate at the end of the year, based on the results of the meetings



* The size of the circle is determined by the number of participants supporting the appropriate rate level.
Source: Fed (according to the meetings in December 2023 and March 2024).

Key policy rates in selected EM countries, %



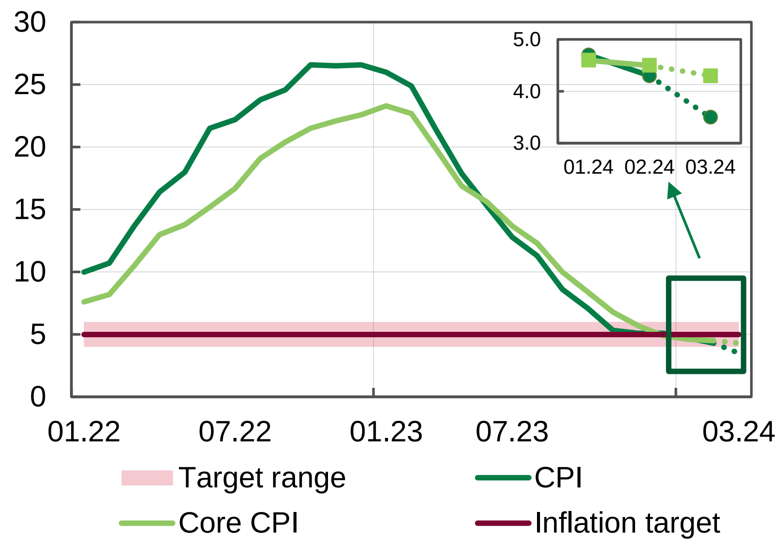
Source: official web pages of central banks, Focus Economics, Oxford Economics, as of 29.03.2024.

- **The Fed** and **the ECB** have left rates unchanged and continue to emphasize that their decisions will be data-driven. **The ECB** has cut its inflation forecast and signaled that it could probably ease its policy in June. **The Fed** considers it appropriate to start cutting rates ‘at some point this year’ (it still expects three cuts in 2024), while some policymakers are calling to be patient amid persistent inflation and a strong economy. Markets expect easing to begin in June, but there is currently no clear consensus on the extent of rate cuts
- **The CB of Switzerland** unexpectedly, the first among the CBs of advanced economies, has cut the policy rate. In contrast, **the CB of Japan** has ended the period of negative interest rates
- The **CB of Mexico** has joined the **EM CBs`** rate cutting cycle. **The CB of China** has room for further reduction of the reserve requirement ratio. At the same time, the **CB of Turkey** unexpectedly raised its key rate by 500 bps amid worsening inflation outlook

Ukraine: Inflation

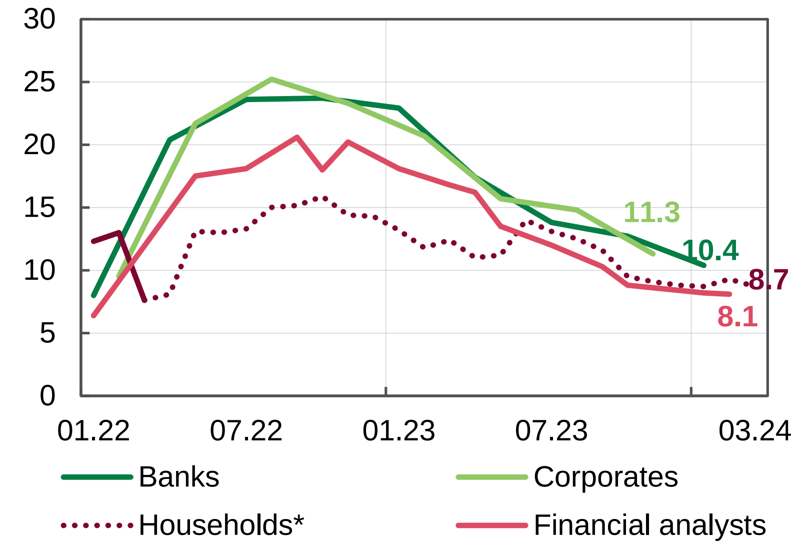
Consumer inflation in Ukraine continued declining

Inflation* and inflation target, % yoy



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

Inflation expectations for the next 12 months, %

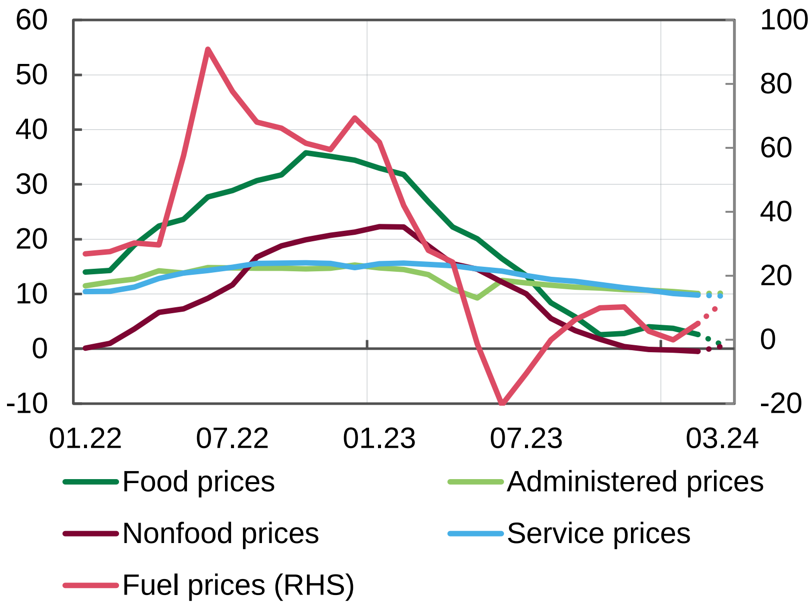


* The dotted line indicates a change in the method of survey for a telephone interview.
Source: NBU, Info Sapiens.

- The actual consumer inflation in February was below the trajectory of the NBU's forecast published in the January 2024 Inflation Report. This was due to an increased supply of certain food products and effects from the strong last year's harvests
- Core inflation also slowed. The easing of underlying inflationary pressures was facilitated by the reduced pressure from the business costs, in particular for raw materials and energy, the situation in the FX market remaining under control, and improved inflation and exchange rate expectations of certain groups of respondents
- Meanwhile, the core inflation slowdown was restrained by the effects of the western borders blockade on the supply of certain food and nonfood products and an increase in labor costs
- According to the NBU's estimates, inflation continued to decline in March

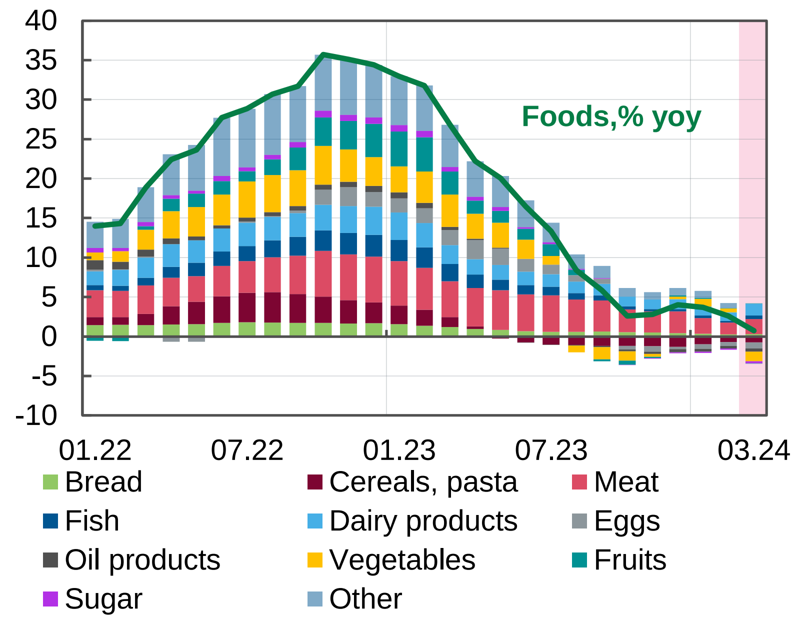
Nonfood products continued to grow cheaper, while price growth for foods somewhat decelerated

Selected CPI components*,% yoy



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

Contributions to the annual change in food prices*, pp

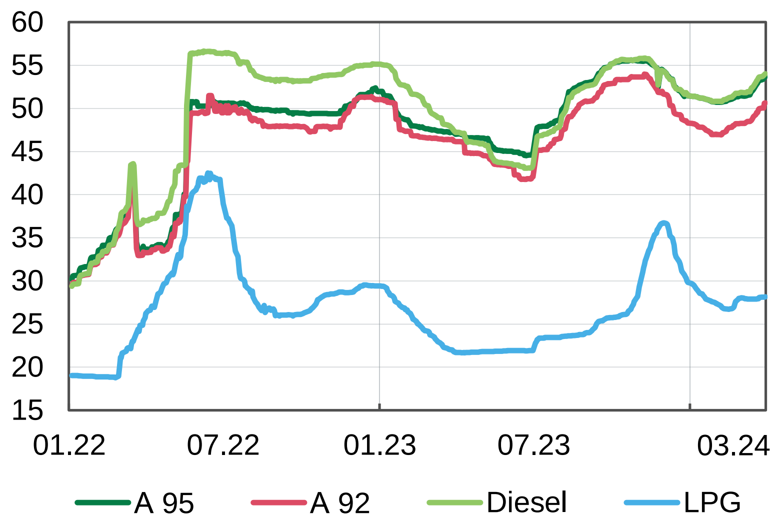


* Data for March reflects nowcast.
Source: SSSU, NBU staff estimates.

- A significant supply of food products amid warmer weather conditions, further effects from the large harvests of 2023, and the reorientation of certain producers 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 quality products (in particular, potatoes and apples), as well as smaller supply of imported products (cheeses, butter)
- Nonfood prices continued to decrease 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

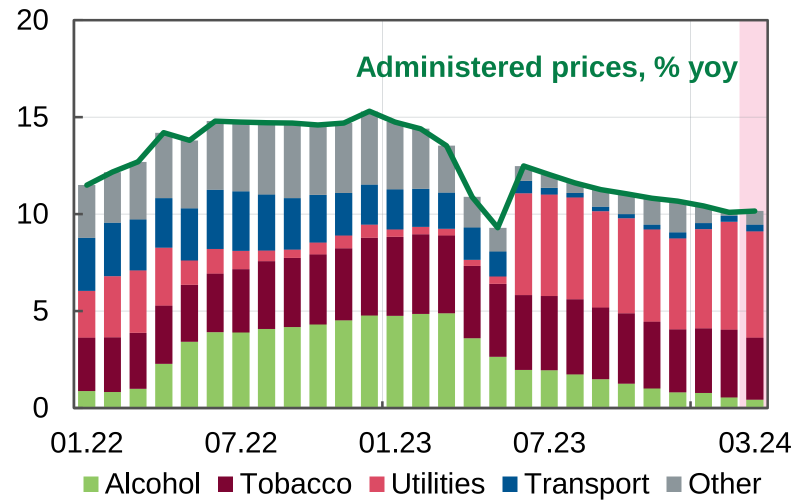
Administered inflation was moderate. Fuel prices resumed growth

Fuel prices, UAH / L



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

Contributions to the annual change in administered prices, pp



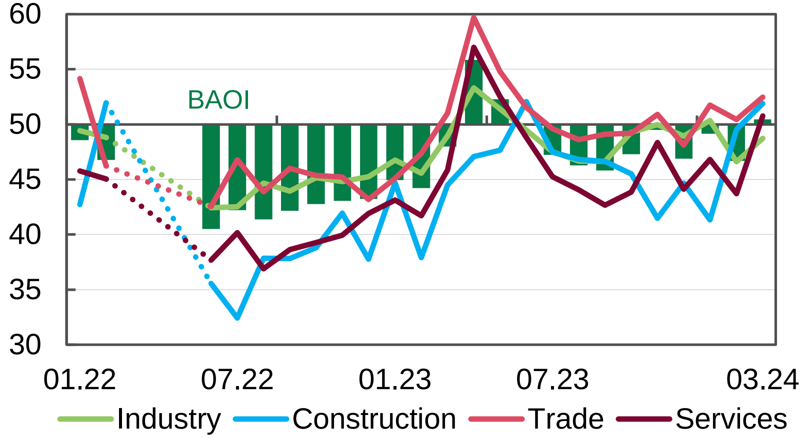
* Data for March reflects nowcast.
Source: SSSU, NBU staff estimates.

- Fuel prices resumed growth in February. This was primarily driven by supply chain disruptions, which mainly affected the prices of LPG, as well as by the rise in global crude oil prices due to the tensions in the Red Sea
- The growth in prices for alcoholic beverages and tobacco products slowed further on the back of a shadow market supply and reduced pressure from the raw materials and energy costs
- The administered inflation was also restrained by a moratorium on raising some utility prices

Ukraine: Economic activity

Business sentiments have improved, but economic recovery is likely to be slowed by more intense shelling

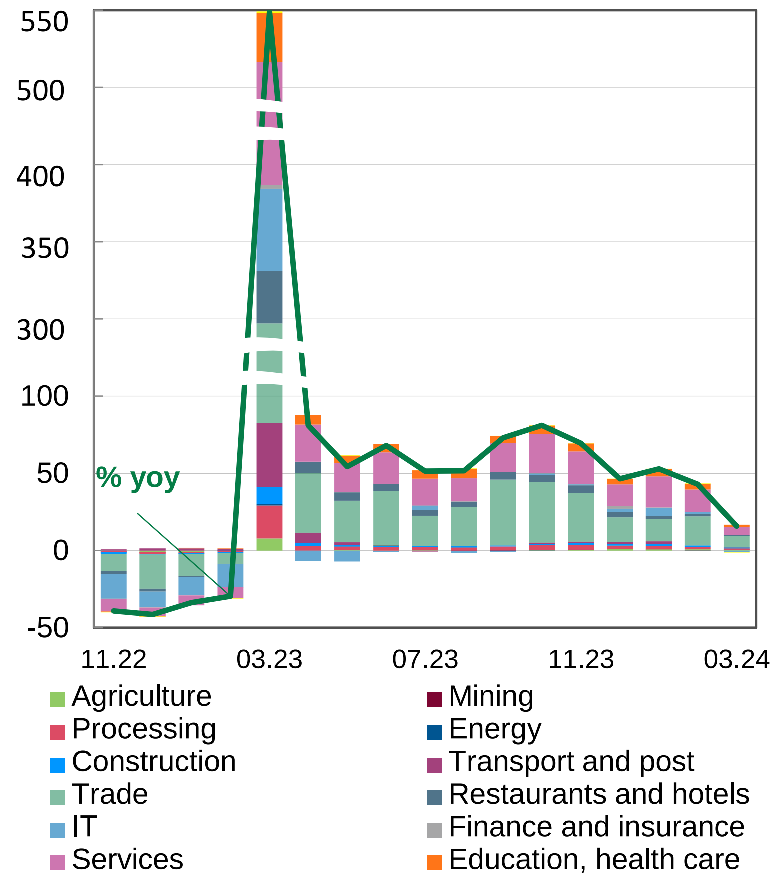
NBU's business activity outlook index (BAOI), sa, p



A level above 50 indicates mainly positive expectations. Survey was not conducted from March to May 2022. Source: NBU.

- The index of business expectations in March indicated a further recovery of economic activity
- Favorable weather and the activation of projects for the development of logistics, warehouses for agricultural products and commercial real estate in the western regions led to an improvement in business sentiments in construction
- Sowing of spring crops has started in all regions. Farmers note a decrease in the costs of production components (fertilizers, pesticides, seeds, and fuel) and a higher supply of them, but they note the increasing lack of workers. Animal husbandry continued to revive, although milk and meat processing slowed seasonally in March

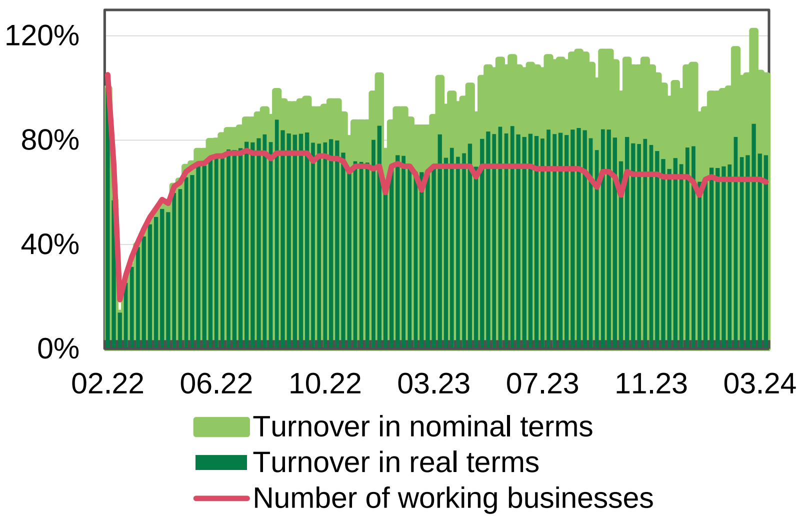
Contributions to the annual increase in the number of new individual entrepreneurs by type of activity*, pp



* In order to improve visual perception, the official names of types of economic activity according to the Classification of Types of Economic Activity were shortened.
Source: opendatabot.ua; NBU calculations.

A revival of consumer and trade activity also took place

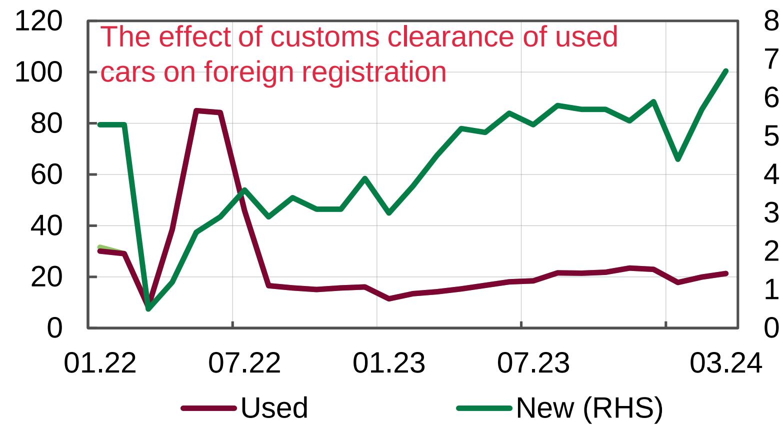
Performance indicators of the restaurant industry, %



Source: SSSU, Poster, NBU staff estimates.

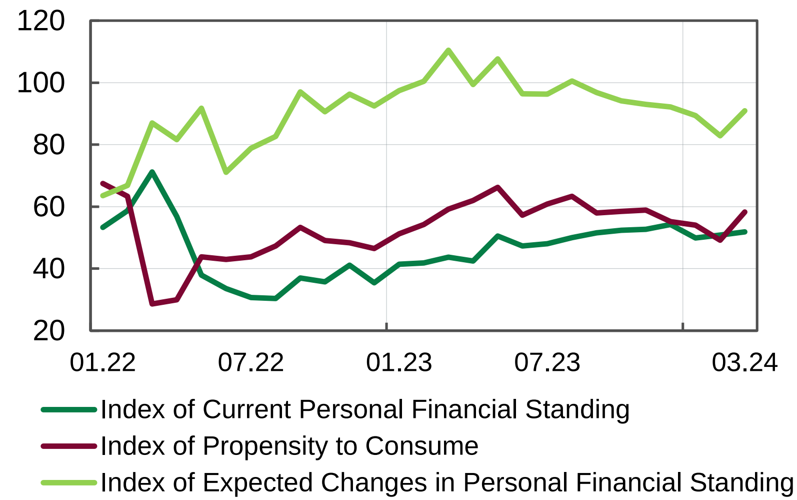
- Consumer sentiments also improved in March. This supported further growth in consumer demand and retail trade, including new store openings; a number of networks are automating business processes to mitigate the problem of lack of workers
- Sales of new passenger cars continued to grow (by 17.5% mom and by 49% yoy)
- The deterioration of restaurant business turnover indicators in the second half of March signaled about hampered recovery in the service sectors due to increased shelling and power outages

The first registration of passenger cars, thousand units



Source: Ukravtoprom.

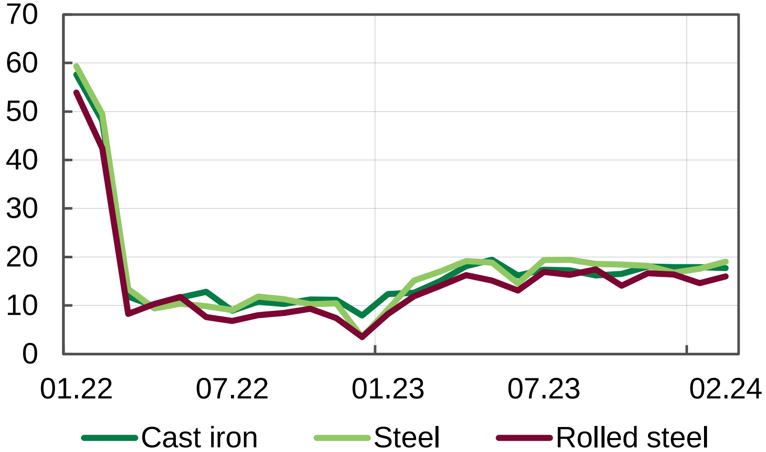
Components of the consumer sentiment index, p



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

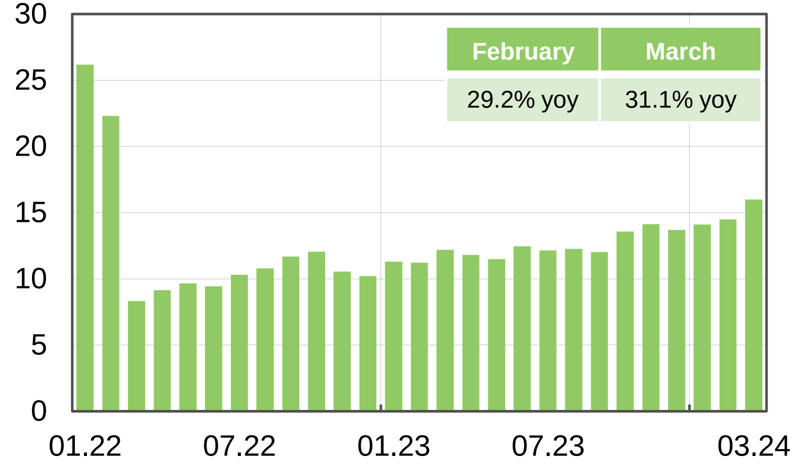
The stable operation of the sea corridor supported transportation and metallurgy

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



Source: Ukrmetalurgprom.

Rail freight transportation, million tons



Source: SSSU, Rail.insider, UZ

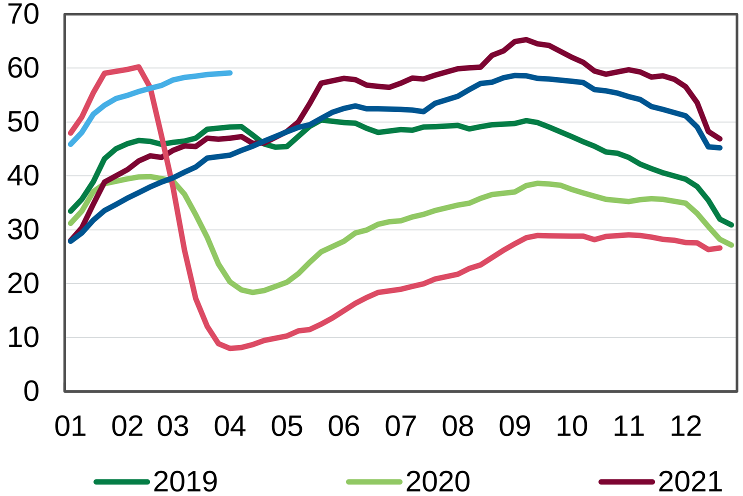
- In March, a number of metallurgical enterprises carried out equipment repairs, including in view of plans to increase the loading of mining and metallurgical units thanks to the improved sea logistics
- State and private coal-mining enterprises maintained production pace and expanded facilities; new gas production wells were launched. At the same time, at the end of March, activity in the industry slowed down due to shelling and blackouts
- Against the backdrop of early sowing, the production of fertilizers intensified
- The work of sea ports further supported the transport industry. In March, railway cargo transportation continued to grow by 31% yoy and 10% mom. Although as a result of shelling in late March and a decrease in stocks of agricultural products, a certain slowdown in sea transportation is expected compared to February

National Bank of Ukraine

Ukraine: Labor market

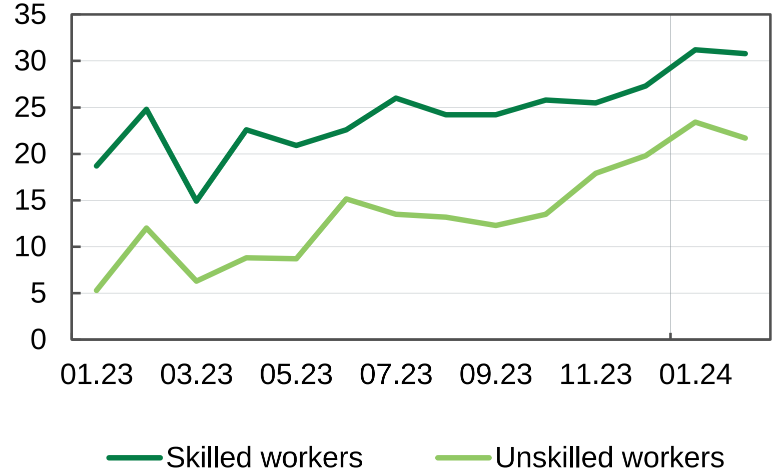
Labor demand continued to grow. However, more and more businesses were facing difficulties in finding employees

Number of new job openings, four-week rolling average, thousands



Source: work.ua, NBU calculations.

Staffing problems index*

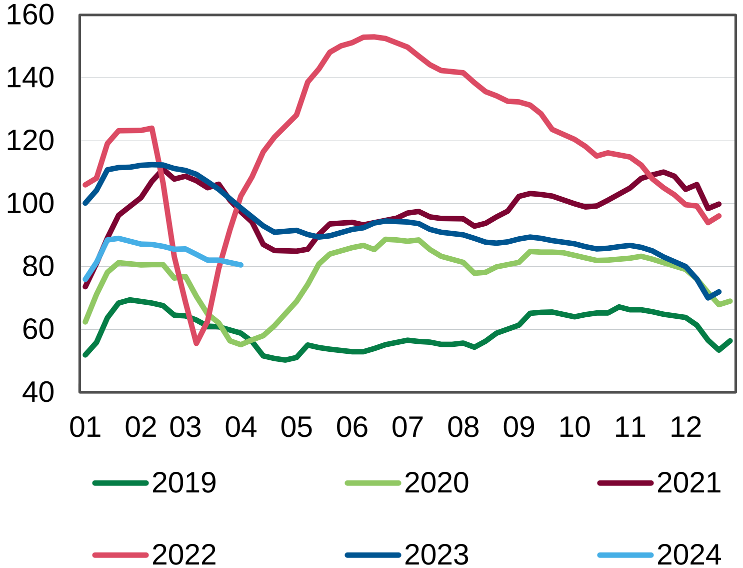


*Difference between the shares of answers “finding employees has become more difficult” and “finding employees has become easier”.
Source: IER.

- An increase in the number of new job postings on job search sites indicated a steady demand for labor in early 2024
- At the same time, according to business surveys, more and more companies were facing difficulties in finding both skilled and unskilled workers

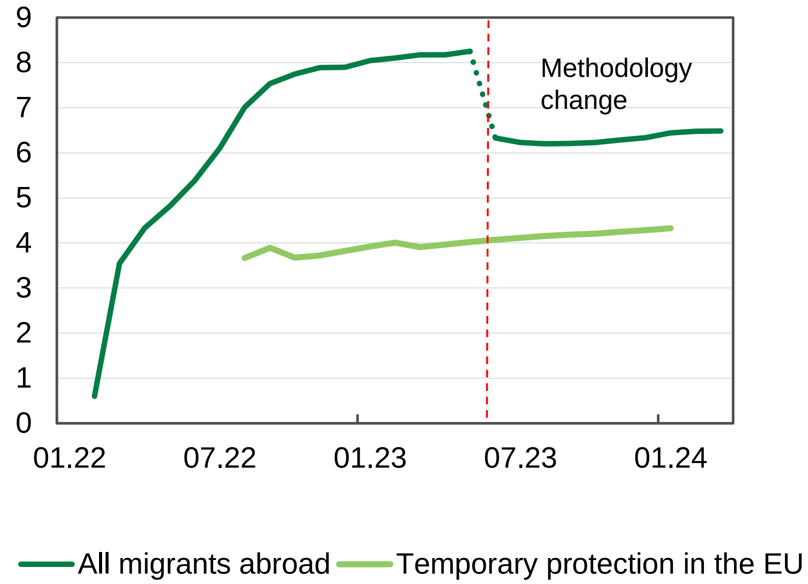
Labor supply remained tight, in part due to continued migration

Number of new resumes, four-week rolling average, thousands



Source: work.ua, NBU calculations.

Number of migrants, m persons

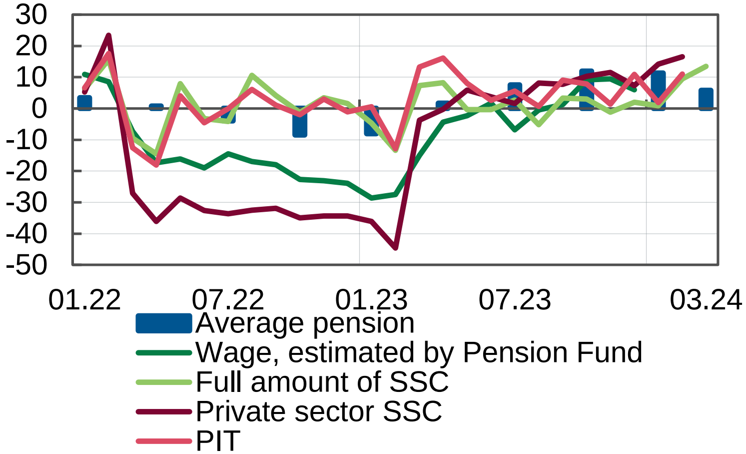


Source: UNHCR, Eurostat.

- The number of job seekers, as measured by the number of resumes posted on job search sites, continued to decline. This may be a result of both the recovery in employment and the limited supply of labor, in part due to mobilization and further migration
- According to the UNHCR, the number of migrants outside Ukraine since the beginning of 2024 has increased by almost 150 thousand (2%) to 6.5 million people, as of 14 March

Deficit of personnel spurs upward pressure on wages

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.

Average salary offered (in job openings) and expected (in resumes), UAH thousand

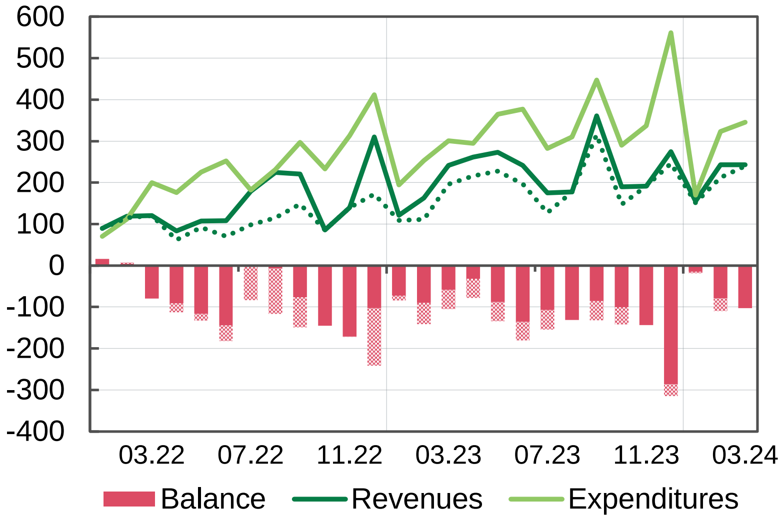
Source: work.ua.

- Because of the mismatches between labor supply and demand, there is increasing pressure to raise wages from both job seekers and employers. The increase in the minimum wage at the start of the year also had an impact
- Wage growth, significant budget expenditures on military allowances, pension indexation (in March), and increases in payments linked to the minimum wage all contributed to higher household incomes, which in turn supported consumer demand

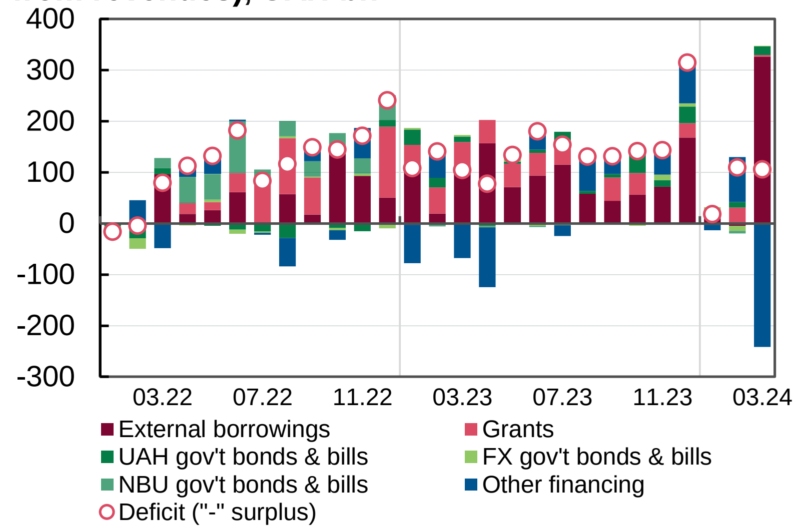
Ukraine: Fiscal sector

The budget deficit remained moderate, despite the record amount of international aid

Main state budget indicators* (monthly), UAH bn



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

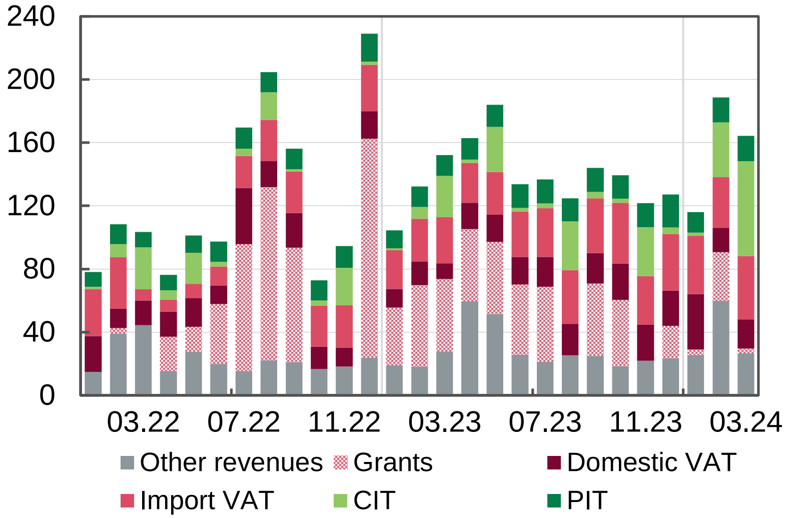


* Dotted and patterned fillings show relevant indicators excluding grants. Balance includes net lending. ** Debt transactions are net borrowings. Other financing represents active operations (in particular, includes the change in volumes of gov`t funds) and privatization proceeds.
March – preliminary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

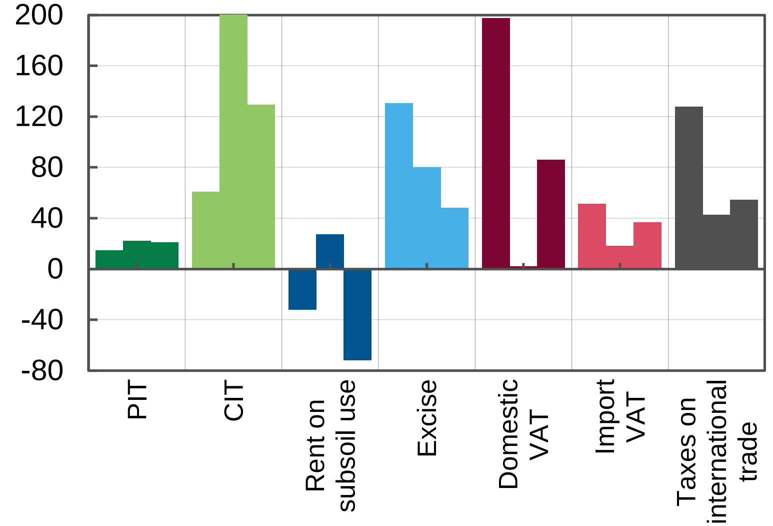
- In March, the state budget deficit, excluding grants from revenues, remained unchanged from the previous month. In January - March, the deficit was smaller than last year. This was, in particular, due to the further growth in revenues amid a moderate increase in expenditures
- In March, budget needs were mainly financed by international financial assistance from partners, the volumes of which were record high in March at about USD 9.0 bn. The international aid also help accumulate funds to cover budget needs in the next few months
- Domestic borrowings, primarily in the national currency, were also an important source of financing budget needs. Their volumes are gradually increasing (the rollover of domestic debt securities in national currency in Q1 was 187%)

Revenues grew despite the negative impact of the blockade of the western borders on proceeds from imported goods

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



Growth in tax revenues of the state budget's general fund in 2024, monthly*, % yoy

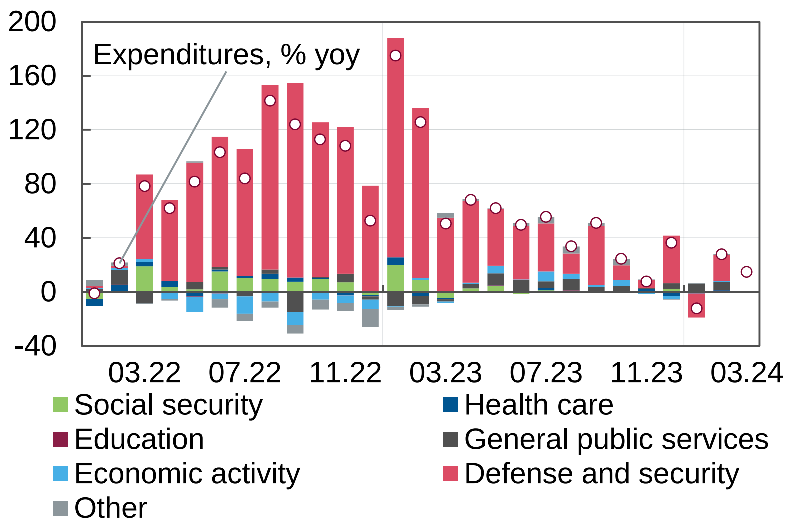


* March – preliminary data from the MFU website. NBU calculations based on the MoF's data.
Source: Treasury, MoF, NBU staff calculations.

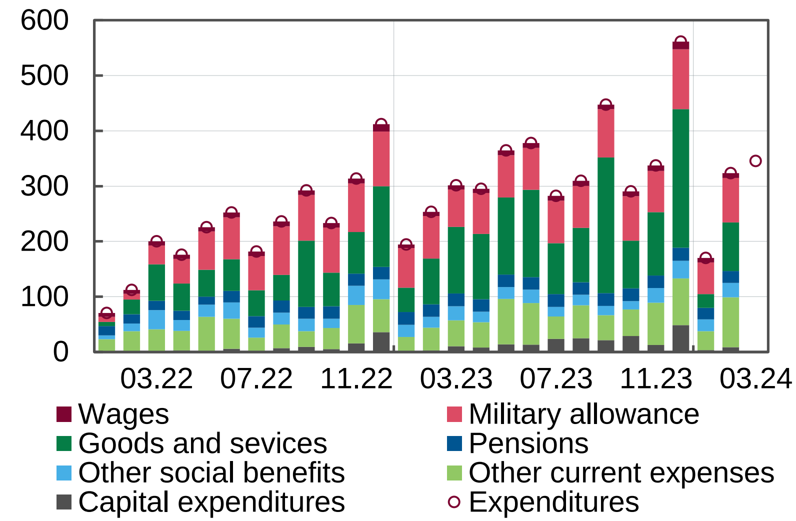
- In March, the general fund revenues, excluding grants, continued to grow (by more than 50% yoy), although the pace slowed down (the latter was due to the advance transfer of dividends from certain SOEs in February)
- The growth was supported by both economic factors (economic activity revival, improvement of financial results of enterprises in 2023, a slightly weaker hryvnia exchange rate) and administrative factors (effects of an increase in the minimum wage and in the CIT rate for banks). Simultaneously, the blockade of the western borders continued to have a negative impact on proceeds from imported goods, although their losses decreased in March

Expenditure growth remained moderate

Contributions to annual changes in expenditures of the state budget*, pp (functional classification)



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



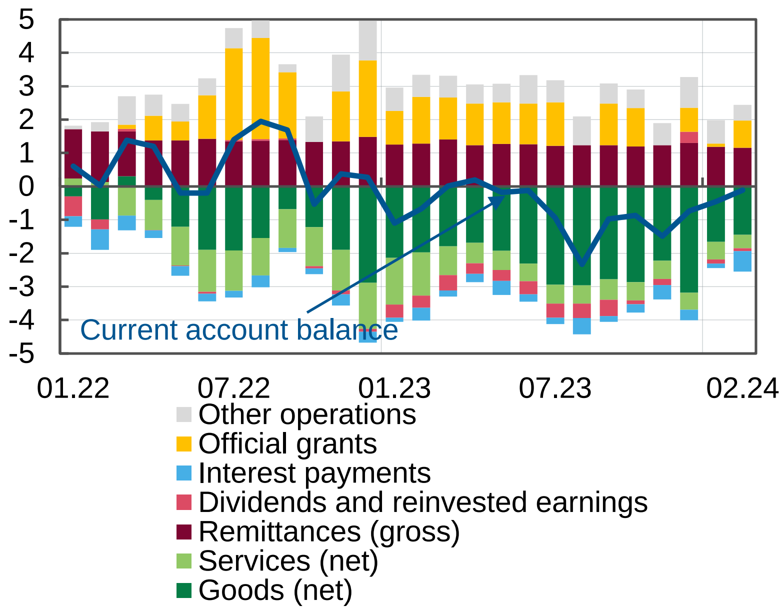
* March – preliminary data from the MFU website. NBU calculations based on the MoF's data.
Source: Treasury, MoF, NBU staff calculations.

- In March, expenditures increased by about 15% yoy. Defense and security, as well as social care, remained the priority spending directions. Moreover, there was a catch-up of expenditure on military allowances and health care
- However, the overall expenditure growth was moderate, despite the record level of international aid in March. This is likely related to the need to accumulate funds in future periods, given the continued uncertainty about the timing and amount of the assistance from the United States

Ukraine: Balance of Payments

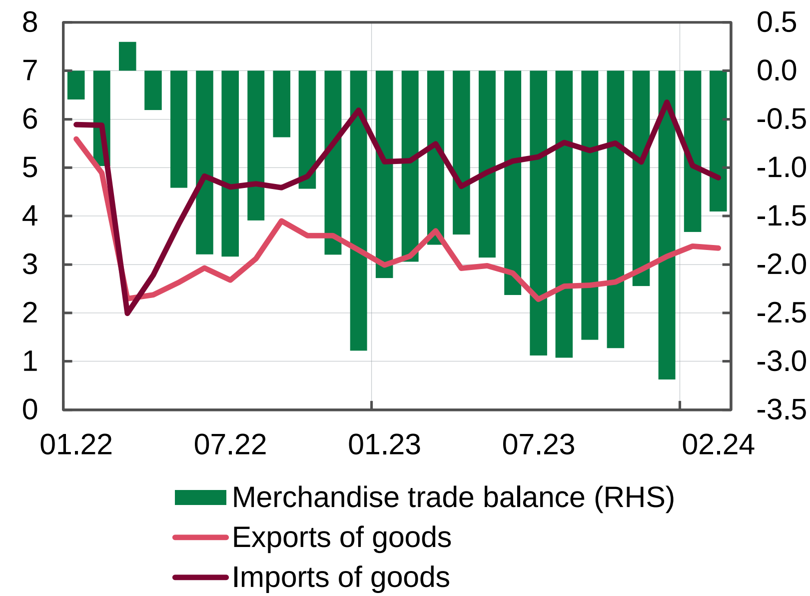
In February, narrowing of the external trade deficit continued due to a reduction in both goods and services imports

Current account balance, USD bn



Source: NBU staff calculations.

Merchandise trade balance, USD bn

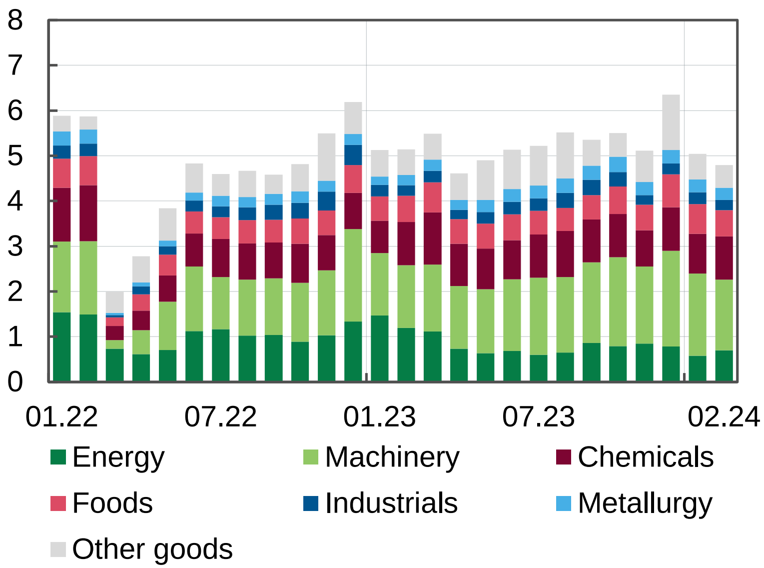


Source: NBU staff calculations.

- In February, the goods trade deficit continued to narrow: the imports of goods decreased due to the reinstatement of the blockade, and the imports of services decreased due to further adaptation of Ukrainians abroad and changes in their residency status. Meanwhile, the exports of goods remained at January levels
- The inflow of international financial assistance in the form of grants offset significant volumes of interest payments on external liabilities
- As a result, the current account was almost balanced

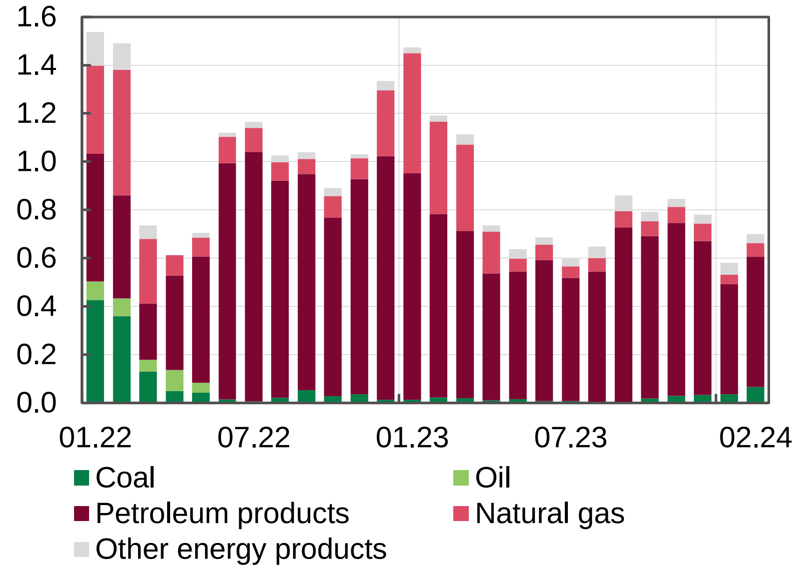
The reinstatement of the blockade of the western borders in February had a greater impact on the imports of goods...

Imports of goods, USD bn



Source: NBU.

Imports of energy products, USD bn

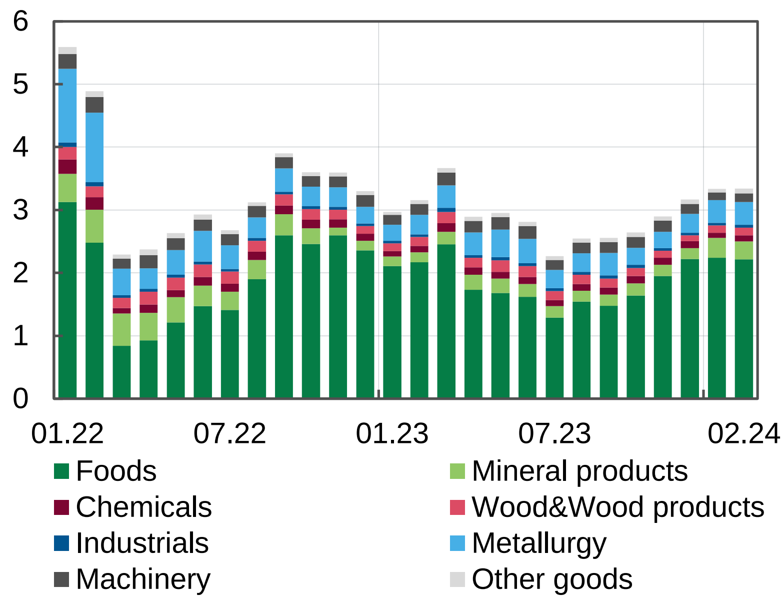


Source: NBU.

- In February, there was no usual for this month increase in the imports of goods due to the reinstatement of the blockade of the western borders. According to NBU estimates, import losses in February amounted to USD 350-400 million.
- The purchases of food products (fish, fruits/nuts), industrial goods (clothing, footwear), and woods decreased the most
- However, the imports of petroleum products and certain chemical products (fertilizers and pharmaceuticals) increased. This may indicate both a lower intensity of border blocking for automotive transportation of military goods and a redirection of these purchases to other trade and transportation routes

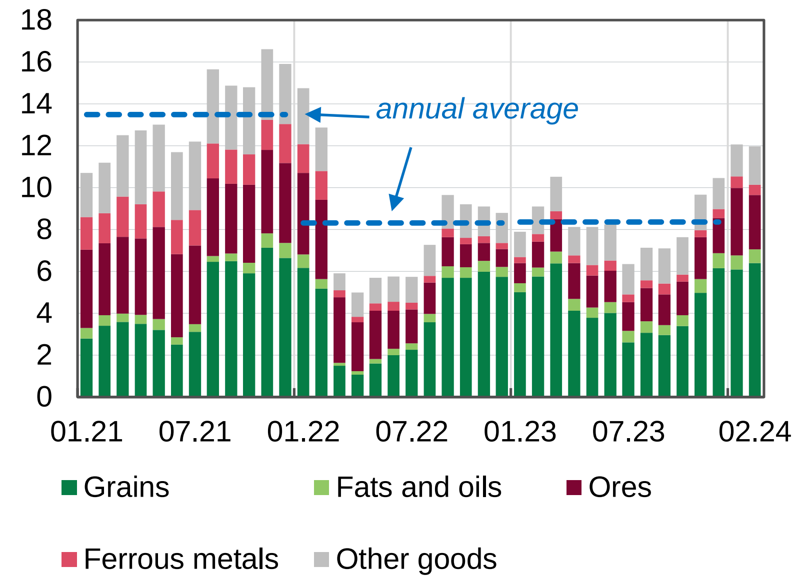
...while the operation of the sea corridor ensured stable volumes of merchandise exports

Exports of goods, USD bn



Source: NBU.

Exports of goods, t m

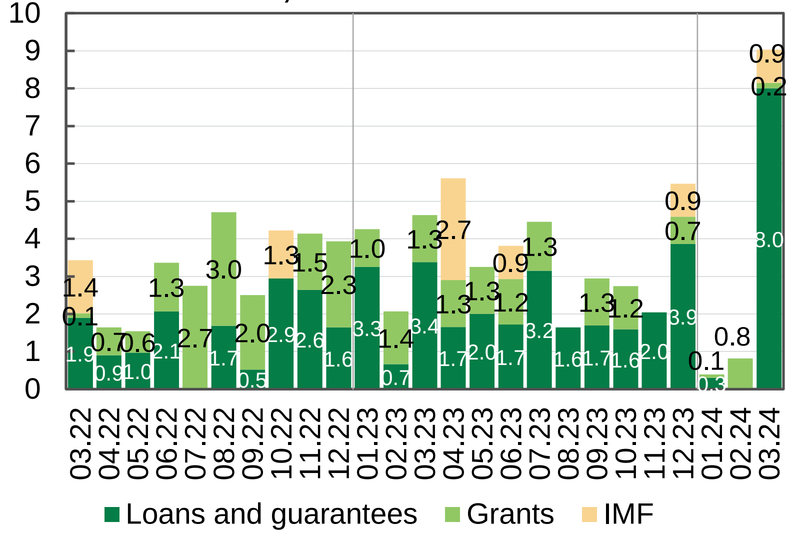


Source: SCSU, NBU staff calculations.

- In February, the volumes of grain exports were the highest since the beginning of the full-scale invasion and were only slightly lower than in January 2022
- At the same time, the exports of mining and metals products slowed down somewhat. Due to the orientation of these products towards Asian countries, this could be caused by the crisis in the Red Sea and weakening demand from China
- Overall, the exports of goods in January-February was closest to the levels before the full-scale invasion

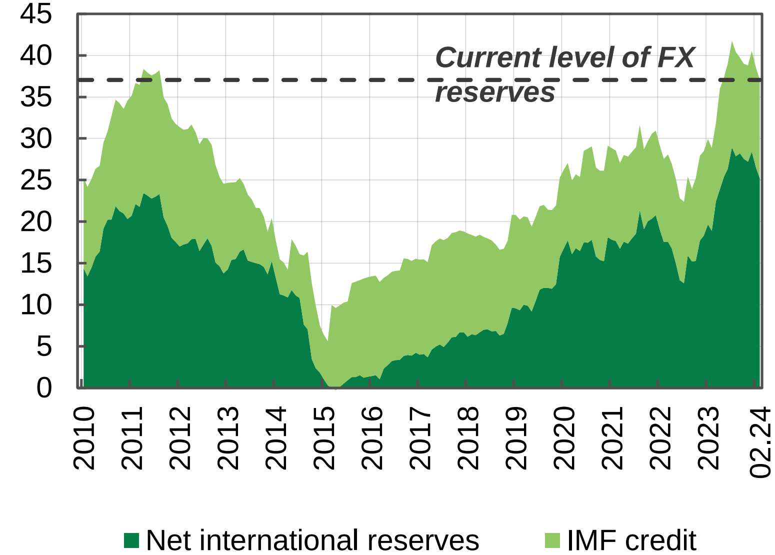
Less regular official financing led to a decrease in gross reserves in February. However, they increased in March again

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



Source: NBU, MFU, open sources data.

International reserves, USD bn



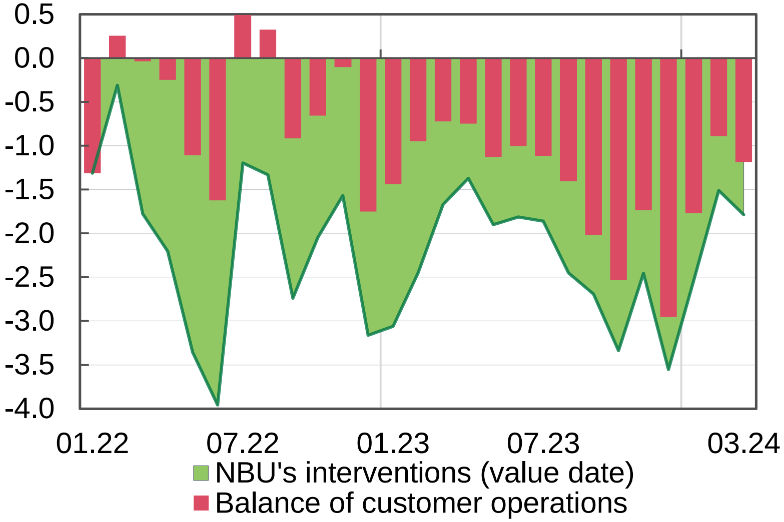
Source: NBU.

- Due to less regular disbursements of international financial assistance, a capital outflow was generated under the public sector of financial account in February, and reserves decreased to USD 37.1 bn
- Meanwhile, due to significant volumes of international financial inflows in March reserves increased

Ukraine: Monetary sector

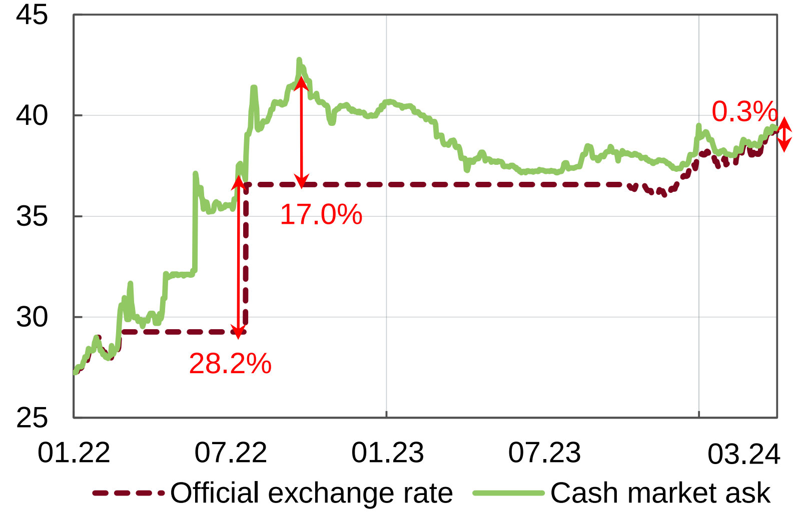
The situation in the FX market remained under control and exchange rate fluctuations were moderate

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

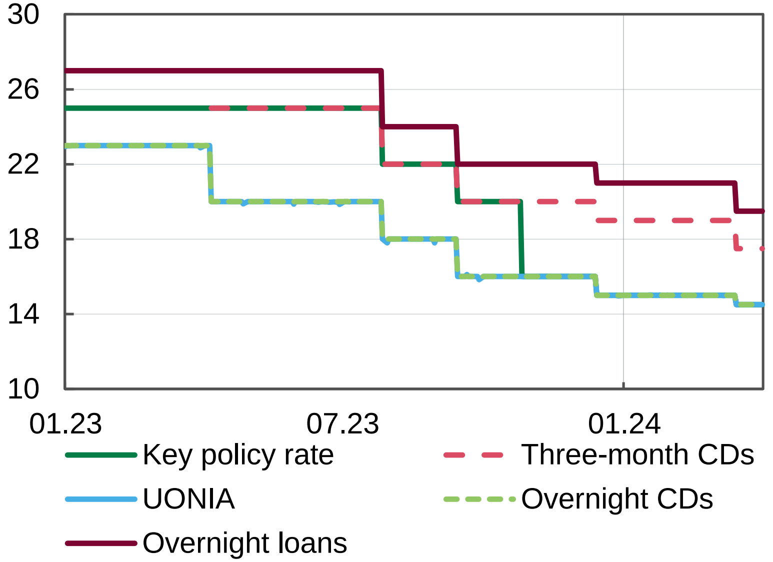


Source: NBU.

- In March, the official exchange rate of the hryvnia against the US dollar fluctuated in both directions, moderately devaluing at the end of the month as a result of a certain worsening of the supply and demand balance in the FX market in the second half of March. This was owing to:
  - revival of spring field work, which was followed by an increase in the FX demand from importers of fertilizers and plant protection products
  - growing need for energy imports, including due to the intensification of attacks on the energy sector
  - activation of budget expenditures with the arrival of significant amounts of external financial assistance in the second half of the month
  - the end of the annual and quarterly tax payment period
- Under such conditions, the NBU increased net FX sales (up to USD 1.8 bn)

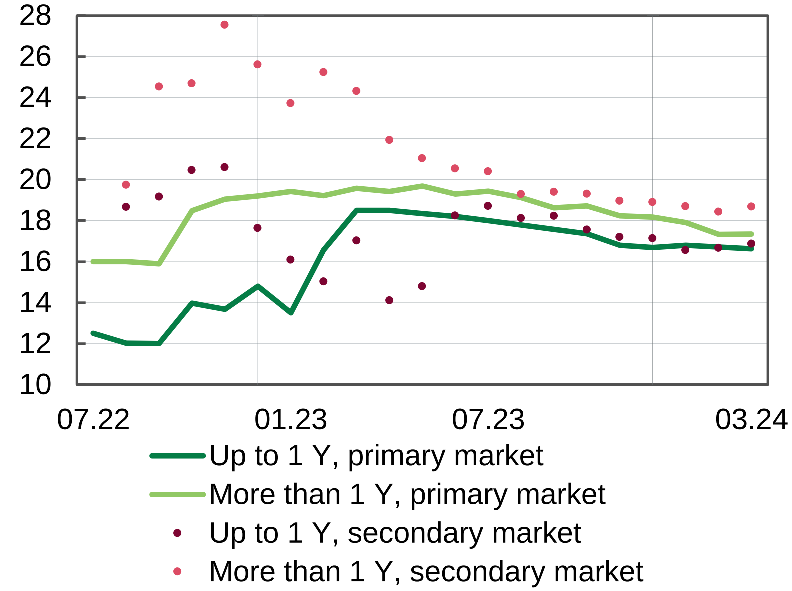
NBU resumed the key policy rate cut cycle to support economic recovery without posing threats to macrofinancial stability

Interest rates on NBU open market operations and Ukrainian OverNight Index Average (UONIA), %



Source: NBU.

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

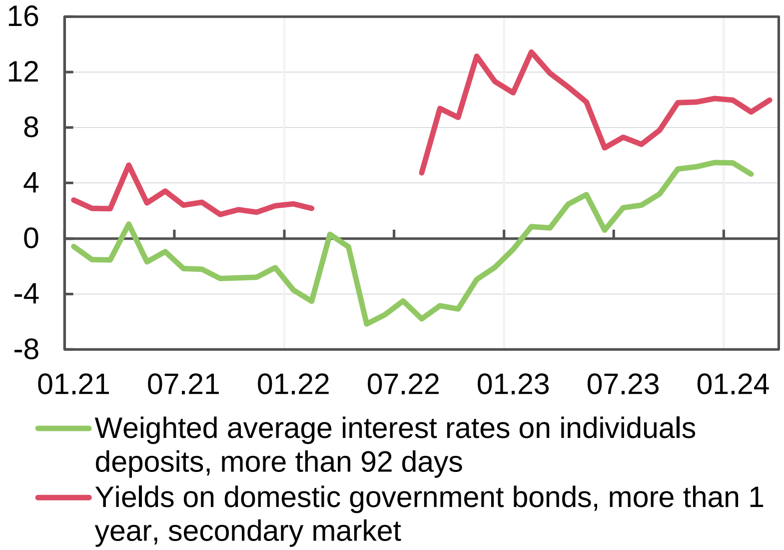


Source: NBU.

- A further decline in inflation, sustained stable FX market conditions, and positive developments in the prospects to receive external assistance enabled an earlier resumption of the easing cycle of interest rate policy
- The new level of interest rates on the NBU's operations is sufficient to maintain the attractiveness of hryvnia assets, safeguard exchange rate sustainability and retain moderate inflation
- The operations with three-month CDs will remain a strong incentive for banks to increase their portfolios of hryvnia household term deposits

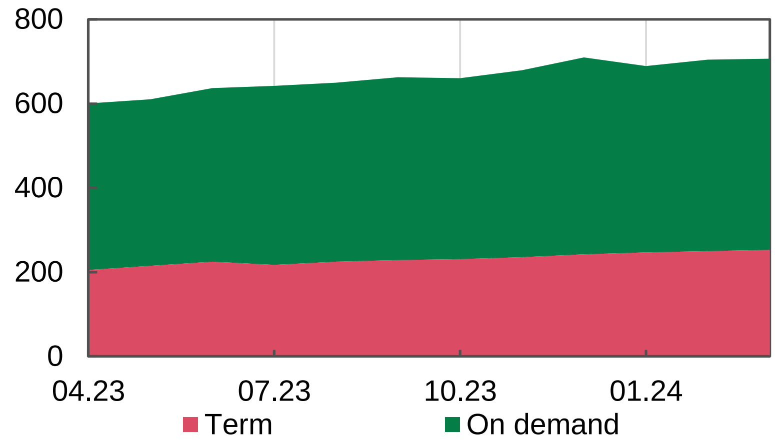
The yields on hryvnia instruments remained positive in real terms

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



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

Hryvnia deposits* of individuals, UAH bn



Preliminary data.
Source: NBU.

- Yields on bank deposits and domestic government debt securities continued to exceed inflation expectations of businesses and households. Together with the controlled situation in the FX market, this supported economic agents' interest in domestic currency savings
- As a result, the demand for hryvnia assets stayed solid. In particular, Ukrainians' holdings of domestic government debt securities increased, and retail term deposits of individuals showed steady growth