



National Bank
of Ukraine

Monthly Macroeconomic and Monetary Review

December 2023

**Monetary Policy and Economic Analysis
Department**



Summary

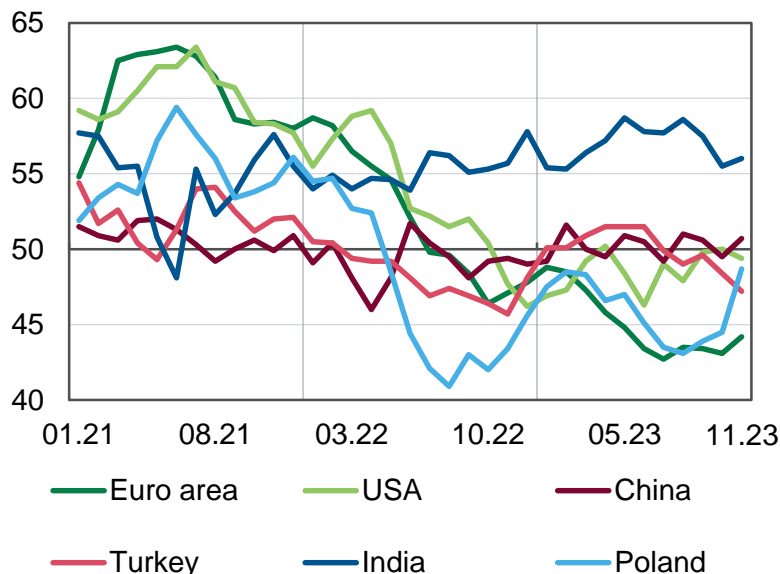
- **Economic growth in Ukraine's main trading partners (MTPs) stayed sluggish. Inflation declined**, but underlying pressures remained persistent. Energy prices moved in opposite directions under the influence of supply factors. Expectations are growing for earlier rate cuts by major CBs. EM CBs continued to ease monetary policy but at a slower pace
- **Consumer inflation in Ukraine continued to decelerate rapidly** (headline inflation to 5.3% yoy, core inflation to 6.8% yoy in October), primarily due to an expanded supply of foods and the preservation of a sustainable situation in the FX market. The latter along with improved expectations also eased underlying inflationary pressures. According to the NBU's estimates, inflation continued to decline moderately in November as well
- In November, high yields of late crops and faster harvesting campaign supported agriculture, stable consumer demand fostered retail trade, continued operation of the temporary sea corridor and an increase in rail transport shored up the transportation sector, while defense orders supported manufacturing
- **Labor market activity slowed seasonally**. Significant regional and occupational mismatches put upward pressure on nominal wages in the private sector, while real wages were also growing due to slowing inflation. Internally displaced persons and migrants abroad continued to gradually adapt at their new places of residence
- **By the end of the year, the state budget deficit has been traditionally widening**. International aid remained a crucial source of deficit financing, but domestic borrowings picked up due to attractive yields on government securities
- In October, **the balance of trade in goods and the current account remained almost at the level of previous months** thanks to the larger grain shipments by sea, as well as resilient remittances and international support. Despite a temporary surge in FX demand in October, **reserves remained at a high level** of USD 39 bn as of the end of October and USD 38.8 bn at the end of November
- **Following the change in the exchange rate regime, the situation in the FX market has remained under control**. As announced, the NBU covered the structural deficit of foreign currency in the market, allowing the exchange rate to move in both directions in response to market conditions. On average in November, the hryvnia strengthened against the US dollar, and the volume of interventions decreased. **The yields on hryvnia assets remains attractive** amid improved inflation expectations, despite a decrease in nominal interest rates



External Environment

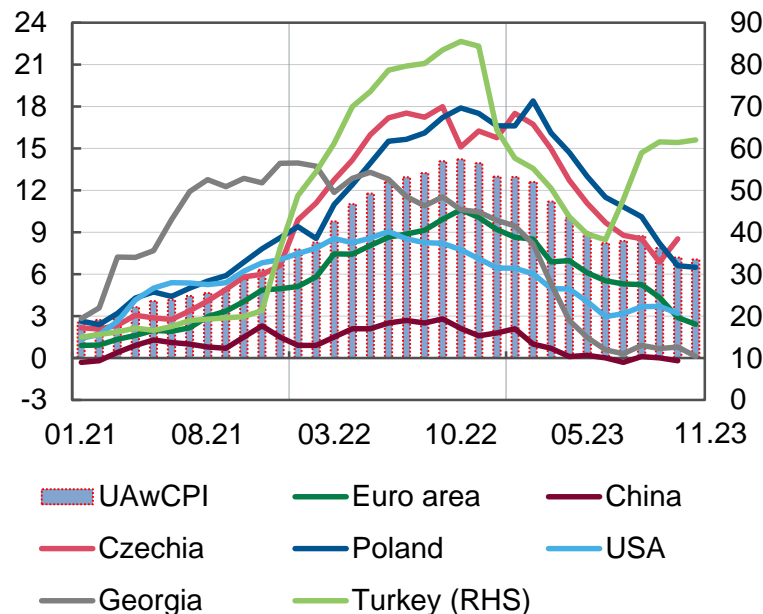
Economic growth in Ukraine's MTPs stayed sluggish. Inflation declined, but underlying pressures remained persistent

Manufacturing PMI of selected countries



Source: S&P Global.

CPI growth in selected countries and a change in UAwCPI (price index in MTPs of Ukraine), % yoy

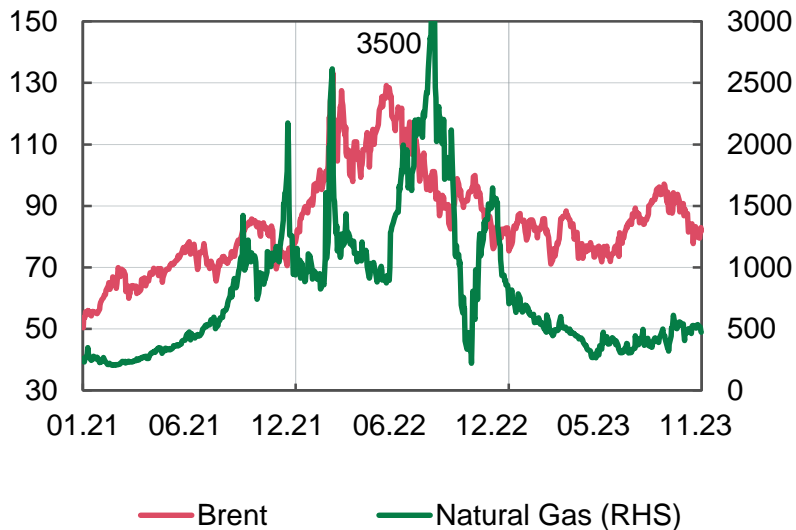


Source: national statistical offices, NBU staff estimates.

- Leading indicators pointed to a slower decline in both output and new orders, but backlogs of work from earlier periods will keep manufacturing from a deeper decline
- Owing to demand weakness, firms were cutting employment for the third month in a row
- Increases in input costs and output prices in manufacturing slowed, whereas the resilience of the services sector fueled inflationary pressures. Thus, although inflation in Ukraine's MTP countries (UAwCPI) eased further, the underlying pressure on prices remained significant

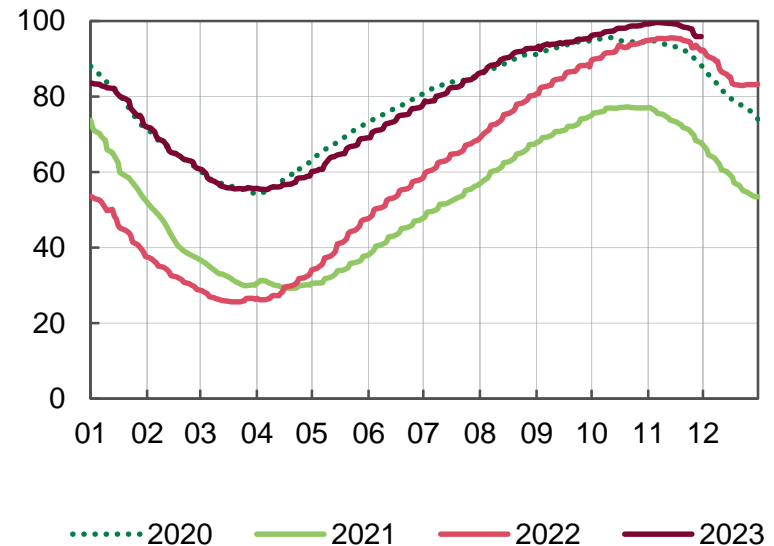
Energy prices moved in opposite directions under the influence of supply factors

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



Source: Refinitiv.

EU gas storage inventories in the corresponding year, % full

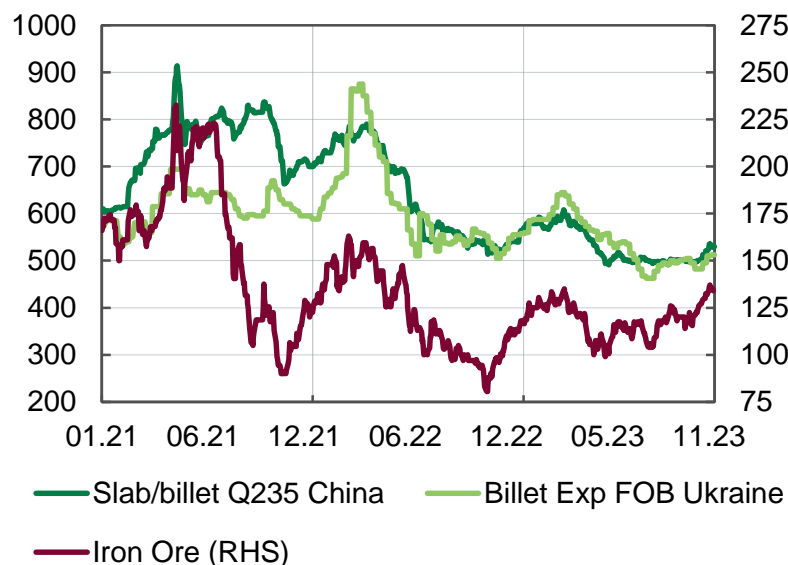


Source: Refinitiv.

- Global oil prices gradually declined as fears of further escalation in the Middle East subsided, and supply from non-OPEC+ countries and Iran grew. This offset production cuts under the OPEC+ agreement and additional reductions by Saudi Arabia and Russia. Amid a slowdown in global demand, this led to the accumulation of oil stocks, in particular in the USA
- In contrast, gas prices in Europe corrected after falling in late October. Although warm weather persisted throughout almost the whole of November, restraining the reduction in gas inventories in Europe (storages were 95.3% full), the risks of supply disruptions and more active LNG imports by Asian countries led to a price increase

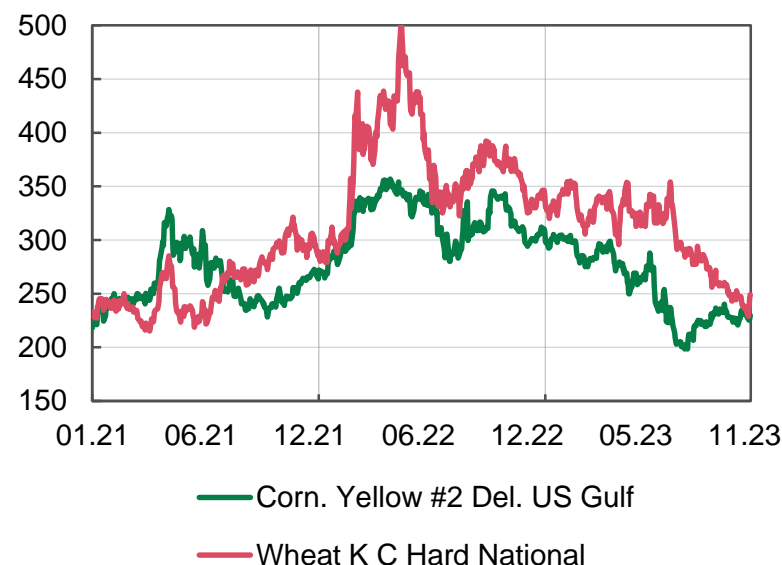
Steel prices rose in anticipation of economic stimulus in China, while grain prices remained volatile

Global steel and iron ore prices, USD/MT



Source: Refinitiv, Delphica.

Global grain prices, USD/MT

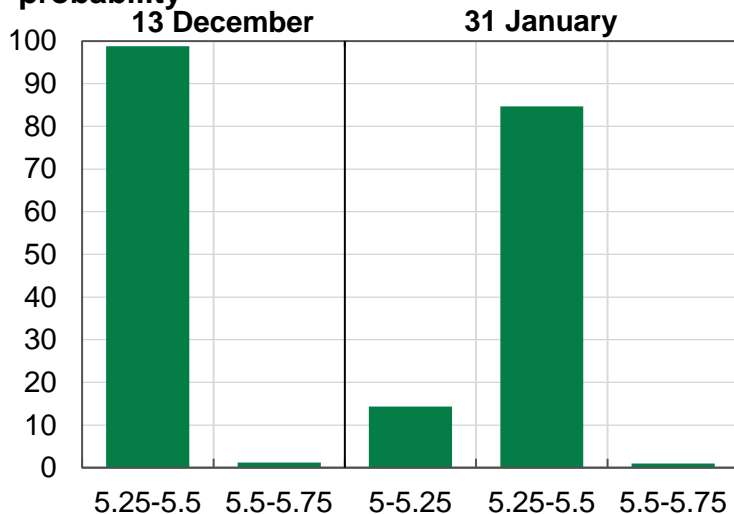


Source: Refinitiv.

- Steel and iron ore rose in prices owing to China stepping up measures to stabilize its real estate market, fueling expectations of improvement in demand. The buildup of raw material stocks for the winter period provided support to prices, given the low profitability of steel producers
- Wheat prices mostly declined due to weak demand and sufficient supply from the U.S. and the Black Sea region. However, they corrected by the end of the month as demand from Asian countries, including China, restored, and harvest in Australia was expected to deteriorate. Meanwhile, corn prices fluctuated within a narrow range, influenced by changes in weather conditions in Brazil and export competition with the U.S. amid a record harvest

Expectations are growing for earlier rate cuts by major CBs against the backdrop of inflationary pressure easing

The expected level of the target range for the federal funds rate at respective meetings, % of probability



Source: CME FedWatch Tool, as of 01.12.2023.

Yields on 10-year U.S. bonds and EM* government bonds in local currencies, %

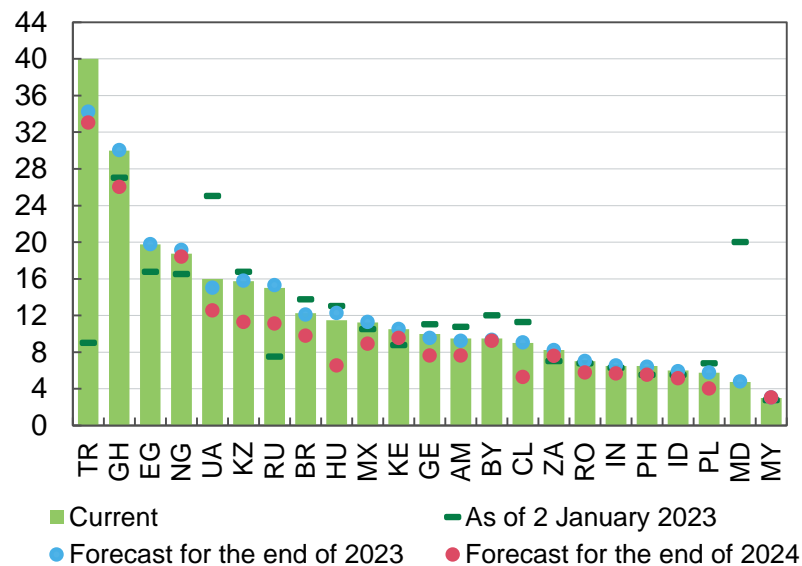


* EM – 18 countries (including CEE)
Source: Bloomberg.

- The Fed and the ECB** left rates unchanged, although further rate hikes were not ruled out. Financial markets perceived the decisions as a signal that the monetary tightening cycle is over, and they are expecting a rate cut by the Fed in March 2024, and by the ECB – in April. At the same time, the CBs` policymakers consider the discussion of monetary policy easing to be premature. However, the change in the tone of the Fed policymakers' rhetoric to a more "dovish" one is noticeable
- Global financing conditions have loosened** against the background of growing market bets for sooner rate cuts. U.S. Treasury yields decreased more than 50 bps in November (the biggest monthly fall in over a decade).

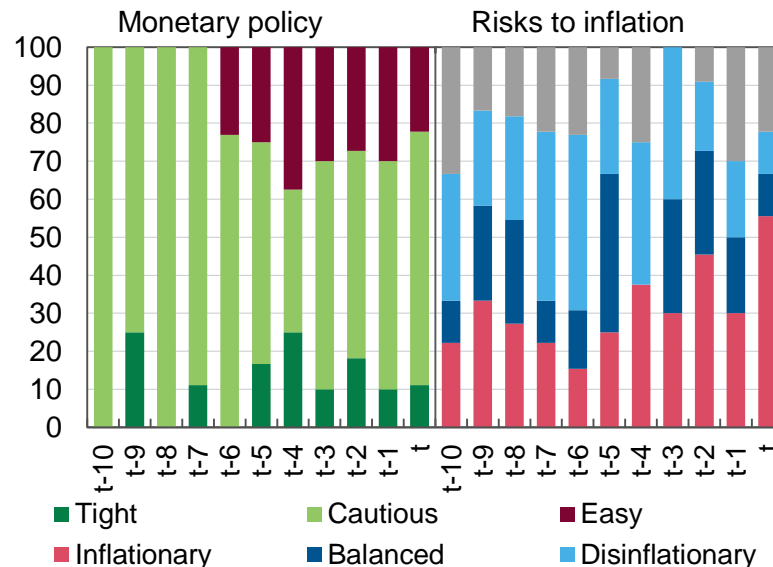
EM CBs continued to ease monetary policy, albeit at a slower pace than before

Key policy rates in selected EM countries, %



Source: official web pages of central banks, Focus Economics, Oxford Economics, as of 30.11.2023.

Balance of CBs' sentiments according to press releases on monetary policy decisions in 2023*, % of CBs



* t – meeting in Nov, t-1 – Oct, t-2 – Sep, t-3 – Aug, t-4 – Jul, t-5 – Jun, t-6 – May, t-7 – Apr, t-8 – Mar, t-9 – Feb, t-10 – Jan.

Source: official web pages of central banks.

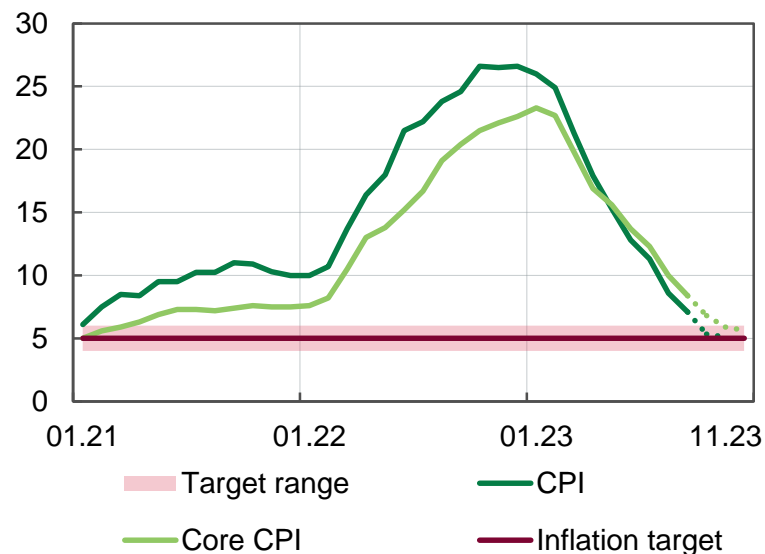
- The CBs of **Hungary, Chile, Armenia** and **Kazakhstan** have slowed the pace of monetary easing, with the latter Bank considering periodic pauses in easing for detailed risk analysis. The **CB of Mexico** may slightly adjust rates downward (once or twice) by February/March 2024 (while intending to maintain tight monetary policy for a long time), the **CB of South Africa** might do so in January 2024. The **CB of China** is considering reserve requirement ratio reduction by the end of 2023, but interest rate cuts are likely to be delayed until 2024
- At the same time, the CB of **Turkey** raised its base rate again (by 500 bps, twice as fast as expected) in November, will slow down the pace of monetary tightening and will complete the tightening cycle in a short period of time. The monetary tightness will be maintained as long as needed



Ukraine: Inflation

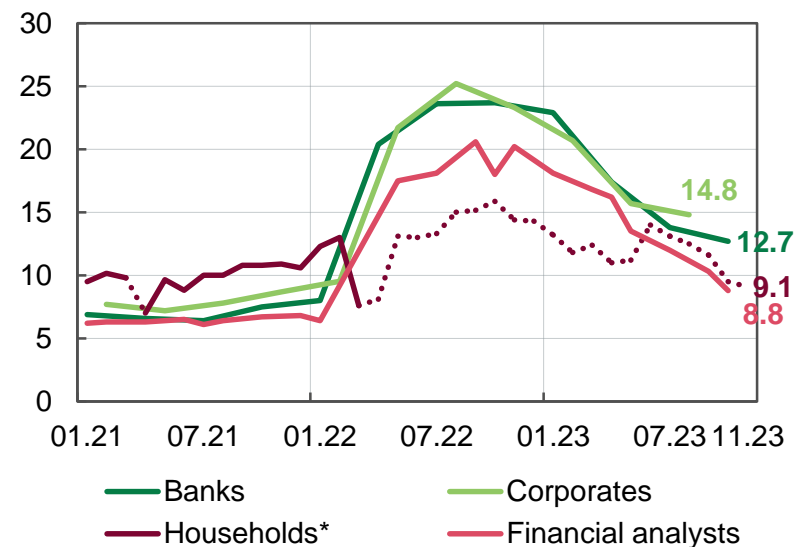
Consumer inflation continued to decelerate rapidly

Inflation* and inflation target, % yoy



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

Inflation expectations for the next 12 months, %

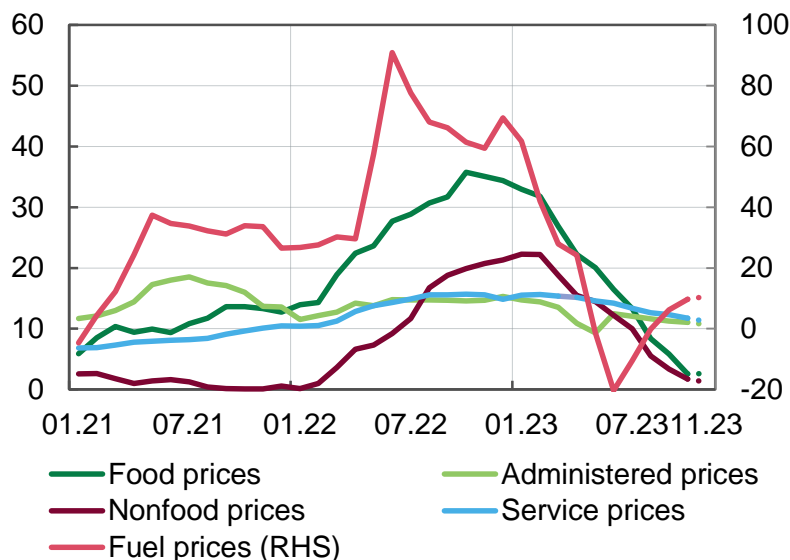


* The dotted line indicates a change in the method of survey for a telephone interview.
Source: NBU, GfK Ukraine, Info Sapiens.

- The actual rates of price growth in October were in line with the trajectory of NBU's October forecast
- Inflation continued to decelerate due to the further expansion of larger supply of foods, in particular fruits and vegetables from the new, larger-than-expected harvest
- Underlying inflationary pressures also eased as a result of improved expectations in the context of continued exchange rate sustainability and reduced pressure from business costs
- According to the NBU's estimates, inflation continued to decline moderately in November

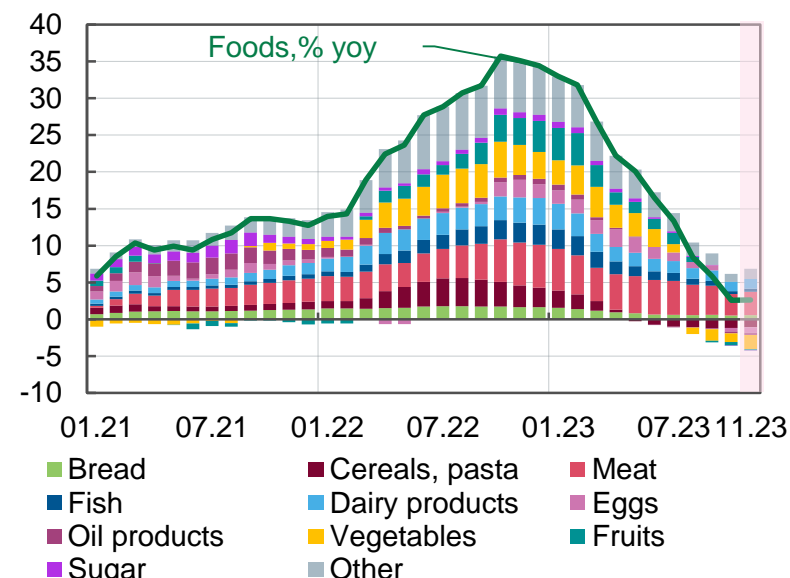
The growth rates of prices for both food and nonfood products have decreased

Selected CPI components*, % yoy



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

Contributions to the annual change in food prices*, pp

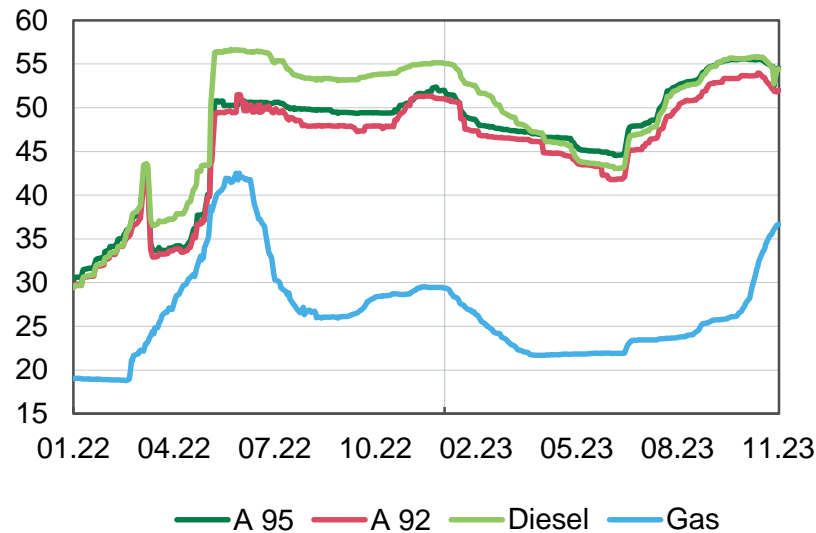


* Data for November reflects nowcast.
Source: SSSU, NBU staff estimates.

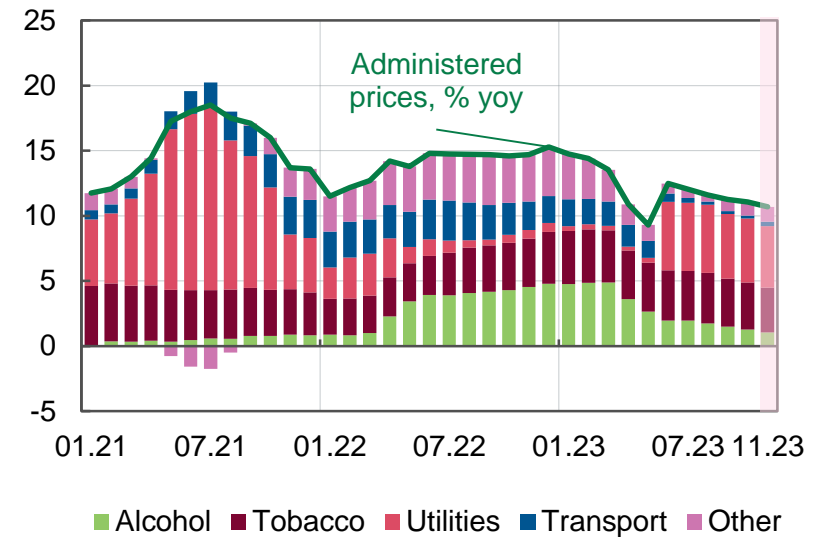
- Vegetable price growth remained lower than last year under the influence of a good harvest owing to favorable weather conditions and the ramping up of production volumes in some regions. The fruit prices also continued to fall, primarily on account of prices for citrus and exotic fruits
- Cereal and flour prices continued to decline, reflecting low export prices and increased production. A decrease in the exports of sunflower oil and certain dairy and meat products, primarily butter and chicken, led to a slowdown in the growth of prices for meat, dairy, and oil products
- The growth rate of prices for other types of foods, nonfood goods and services also decreased due to further easing of pressure from business costs amid improved inflation and exchange rate expectations

Fuel prices continued to rise, while administered prices grew at a slower pace

Fuel prices, UAH / L



Contributions to the annual change in administered prices, pp



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

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

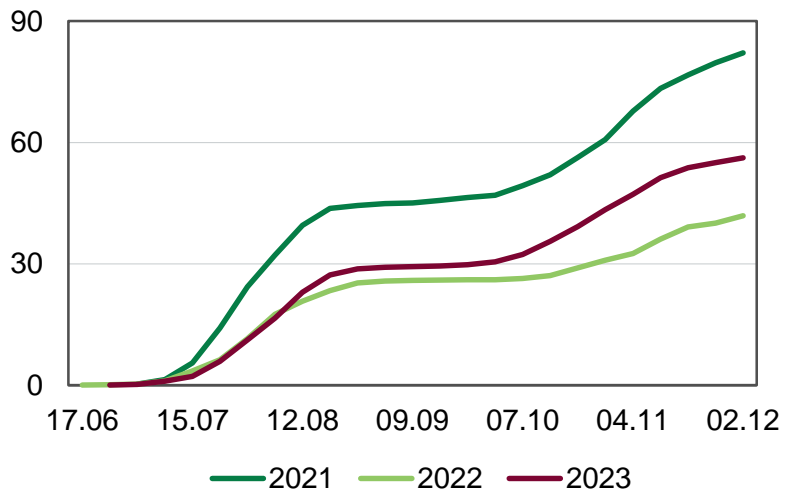
- Fuel prices rose at a higher rate in October amid a rise in global oil prices in previous months and supply chain disruptions when crossing the border. The latter had the biggest impact on the cost of autogas, while other fuels even fell in price at the end of November, mirroring the corresponding trends in the global oil market
- The growth in prices for alcoholic beverages slowed further on the back of a weaker increase in production costs amid pressure from the shadow market supply and relative exchange rate stability
- The moratorium on raising tariffs for several utility services restrained administered inflation



Ukraine: Economic activity

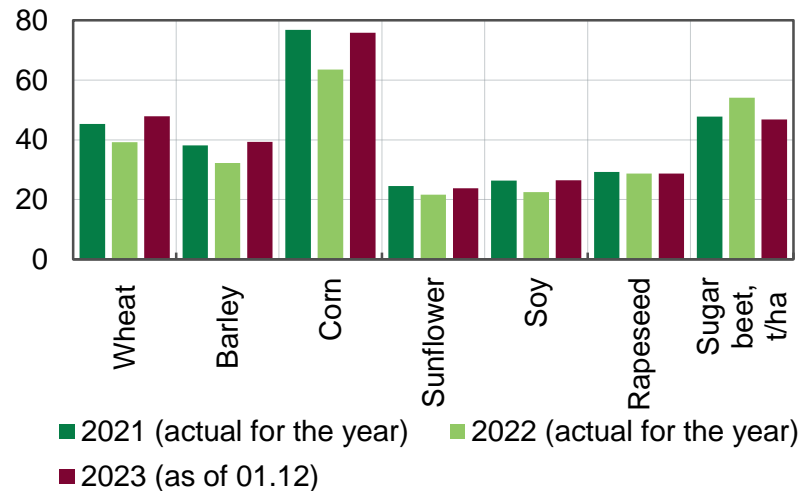
The harvesting of late crops with their high yields supported agriculture and food processing

Volumes of harvested grains and legumes, million tons, cumulative



Source: MinAgro.

Productivity of the main agricultural crops, centner/ha

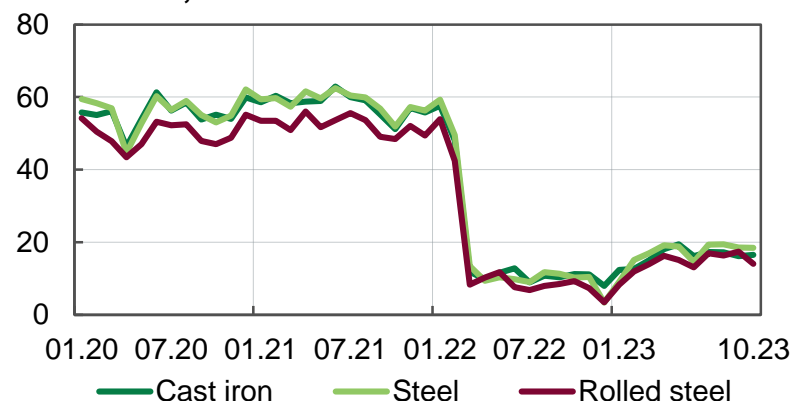


Source: MinAgro.

- The harvesting of late crops is coming to an end. Due to high yields and faster harvesting speed, as of 1 December 2023, the harvests of soybeans were up by 33% compared to the respective period last year, sunflower seeds – by 21%, sugar beets – by 33%, and corn – by 68%
- However, due to the low profitability of grain crops, including as a result of export difficulties, a significant increase in the exports of a number of horticultural crops ([blueberries](#), [frozen raspberries](#), etc.) is expected in the current season
- In addition to higher grain and oilseed crops, the food industry was supported by a successful sugar-making season. The number of [working sugar production enterprises](#) increased by 24%, they worked almost at full capacity
- In meat processing, there was a [seasonal slowdown](#) before the beginning of the New Year holidays. In contrast, [dairy processing](#) was supported by active demand for dairy products from the population

Winter preparations and defense orders supported manufacturing, while sea shipping and rail transport supported transportation

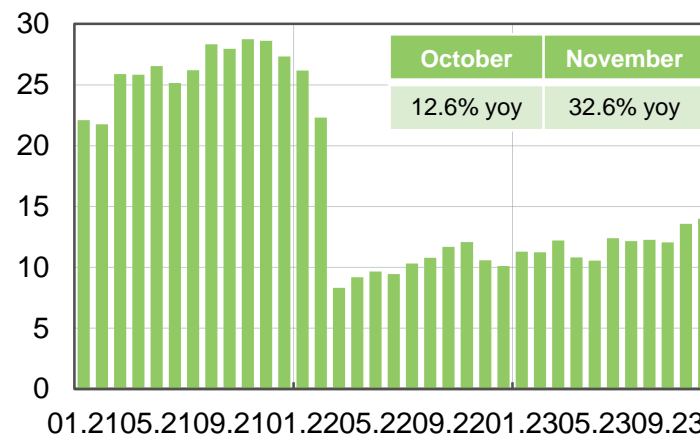
Average daily production of steel, cast iron and rolled steel, thousand tons



Source: Ukrmetallurgprom.

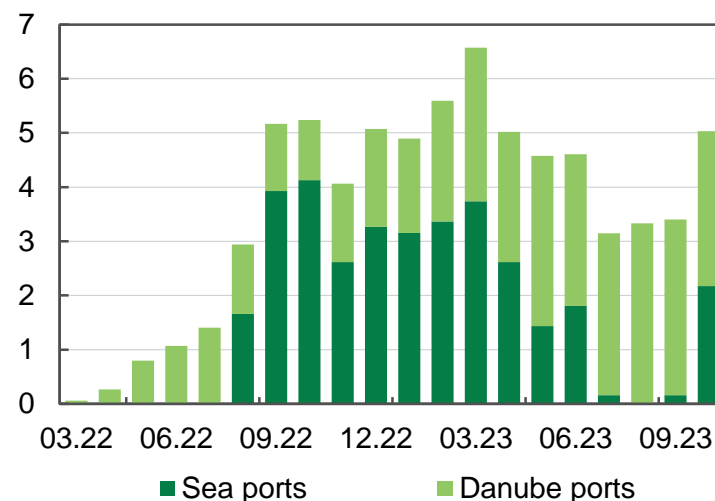
- Against the background of the start of the heating season, [new gas wells were launched](#) and the [productivity of existing gas wells increased](#); [high rates of coal production](#) were maintained
- Engineering was supported by orders for equipment [from mining companies](#), for buses and special equipment [from local communities](#), and for [equipment and electronics](#) from the defense sector
- In turn, orders from [coal mining](#) and [engineering](#) enterprises supported metallurgy
- The operation of the temporary sea corridor supported the transportation industry. Against the backdrop of a decline in [road transport](#) due to difficulties with crossing the western borders, [rail transport increased](#)

Rail freight transportation, million tons



Source: SSSU, Rail.insider, UZ

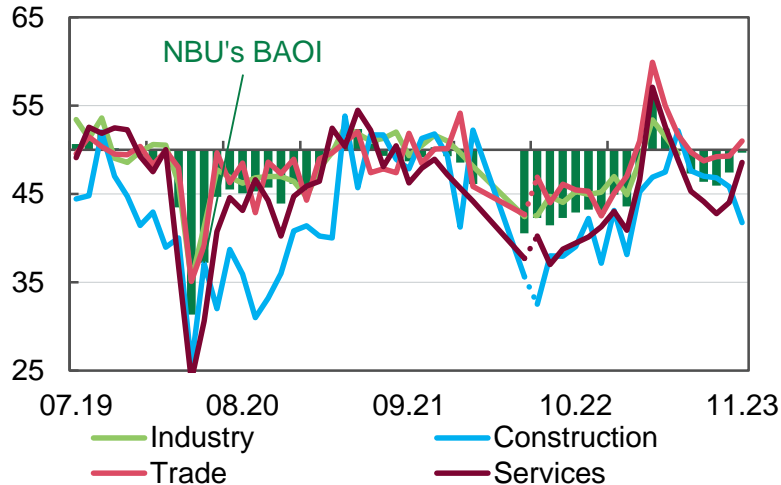
Cargo processing by Ukrainian ports, million tons



Source: USPA, MinAgro.

A revival in consumer demand and the return of some foreign retail chains supported trade in November

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

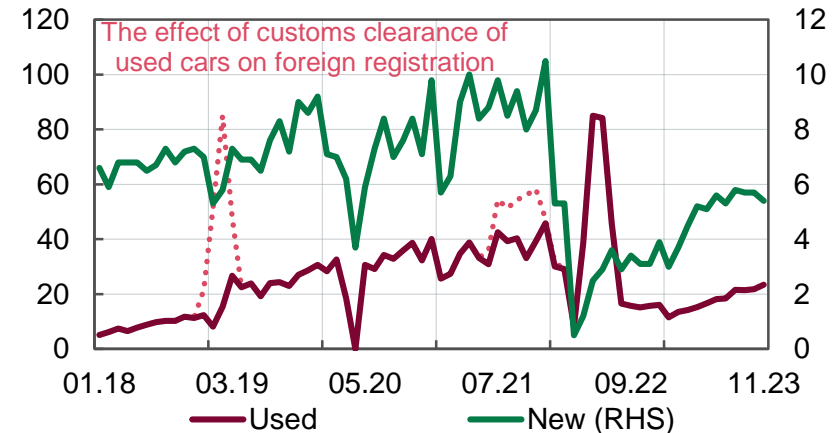


Survey was not conducted from March to May 2022.

Source: NBU.

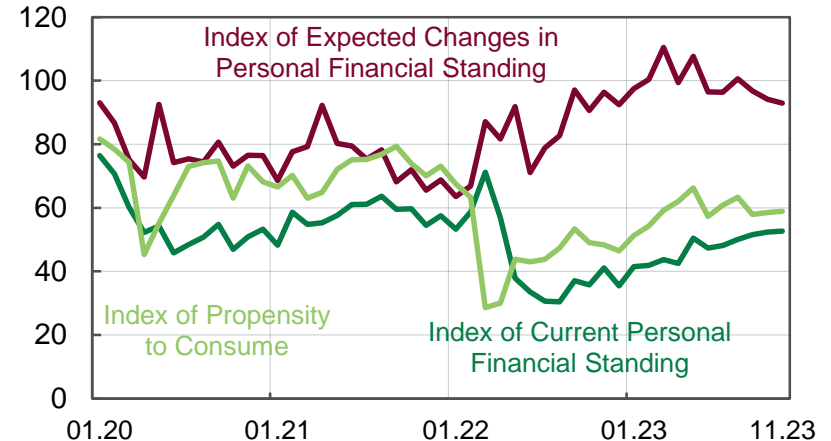
- In November, trade revived thanks to the [growth of consumer demand](#) and the [return to work of some foreign retail chains](#)
- Especially significant growth [was seen in the online segment](#)
- This year, the [average purchase receipt](#) for a number of trade types, and the [share of sales of Ukrainian goods](#) increased significantly
- Sales of new passenger cars in November [decreased](#) by 6% mom, in particular due to the border blockade by Polish carriers, but were still 74% higher than a year ago

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.

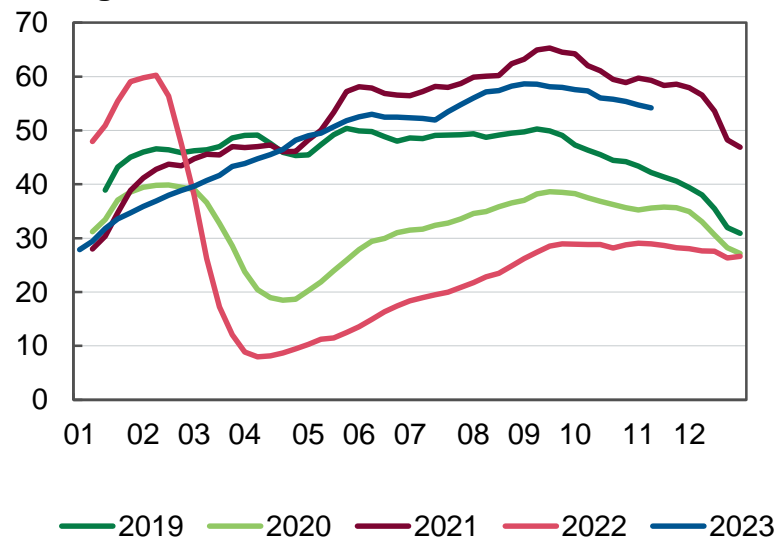
Source: Infosapiens.



Ukraine: Labor market

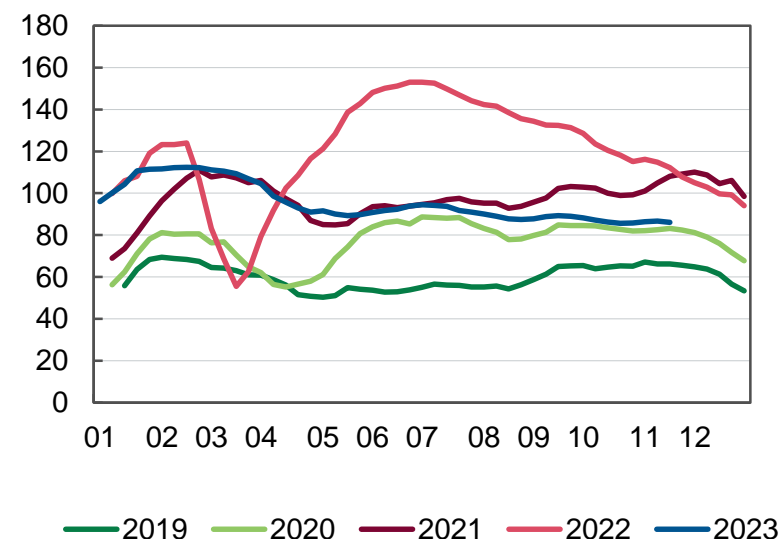
Labor market activity seasonally slowed

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



Source: work.ua, NBU staff estimates.

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

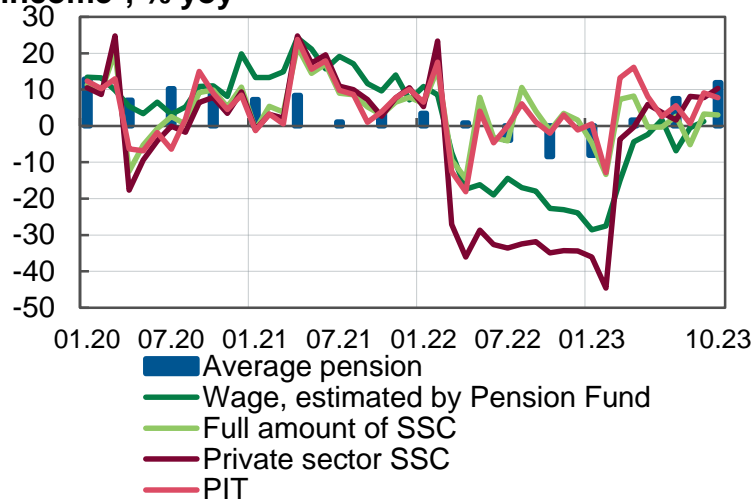


Source: work.ua, NBU staff estimates.

- Typical for the end of the year, the activity of both job seekers and business recruitment has weakened
- Significant discrepancies in labor supply and demand by region and by occupational group persisted. Thus, in November 2023 compared with November 2021, the number of job openings in Kharkiv region was 62% lower compared to November 2021, while in Kherson region it was 83% lower (the all-Ukraine figure was 10%). The number of new job openings for such professions as medicine, pharmaceuticals, retail, and education was still higher than in November 2021

The recovery of households' real income growth continued, in particular due to slower inflation

Indirect indicators for estimating real household income*, % yoy

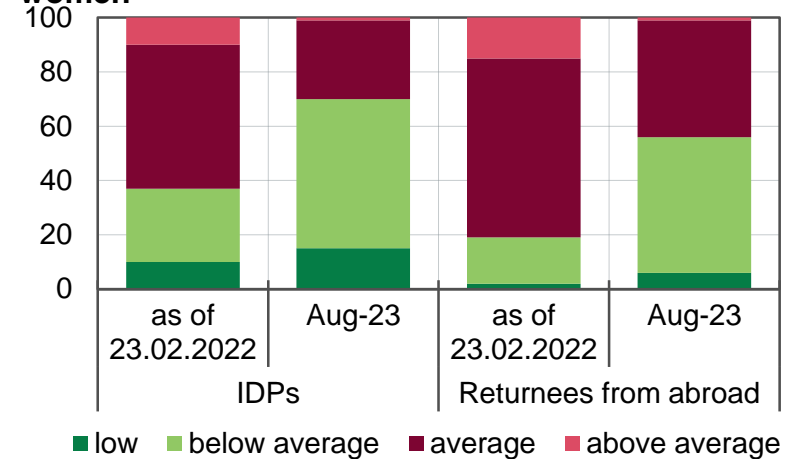


* Deflated by CPI. ** The private sector SSC is calculated as the difference between total SSC and SSC on wages from the consolidated budget.

Source: Pension Fund of Ukraine, STSU, NBU calculations.

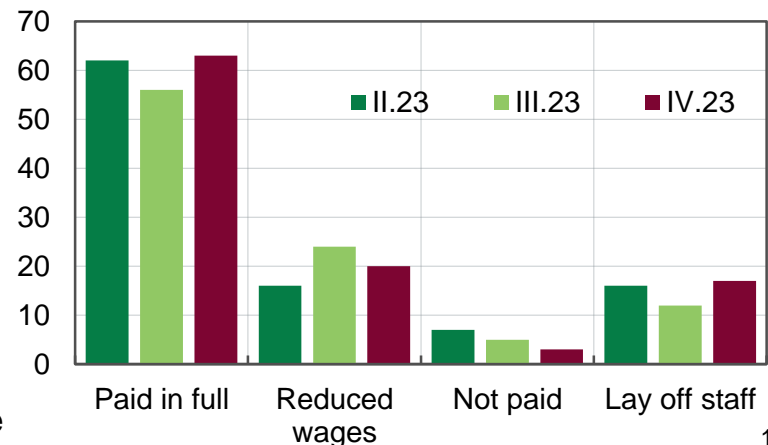
- Budget expenditures remained the main driver of household income growth. At the same time, indirect evidence suggests that wages in the private sector continued to grow. In particular, according to the [EBA survey](#), 76% of businesses increased wages in 2023, and the state of wage payments among SMEs also improved (according to the [EBA survey](#))
- However, according to a Gradus survey, living conditions for Ukrainian families, especially those who were forced to move within the country or abroad, have deteriorated significantly compared to pre-war levels

Household income levels, % of responses among women



Source: Gradus.

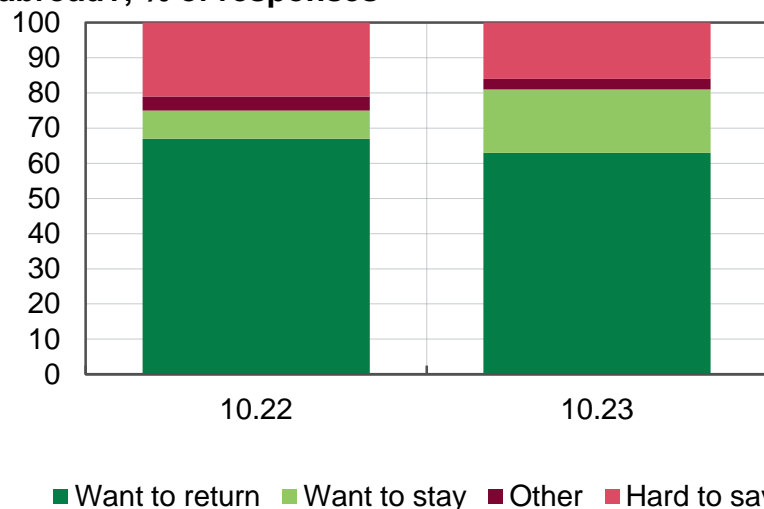
Situation with wage payments among SMEs, % of responses



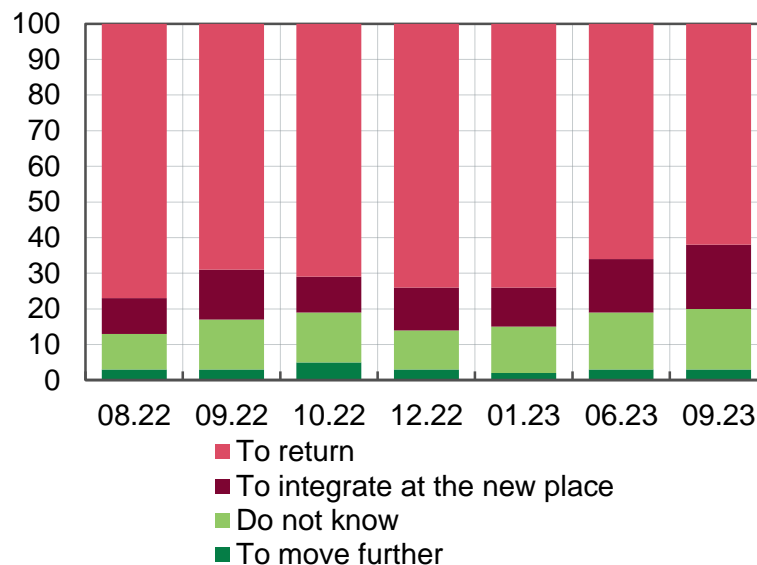
Source: EBA.

Both internally displaced persons and migrants abroad have been gradually adapting at their new places of residence

Do you have a desire to return to Ukraine from abroad?, % of responses



IDPs' medium-term plans, % of responses



Source: Gradus.

Source: IOM.

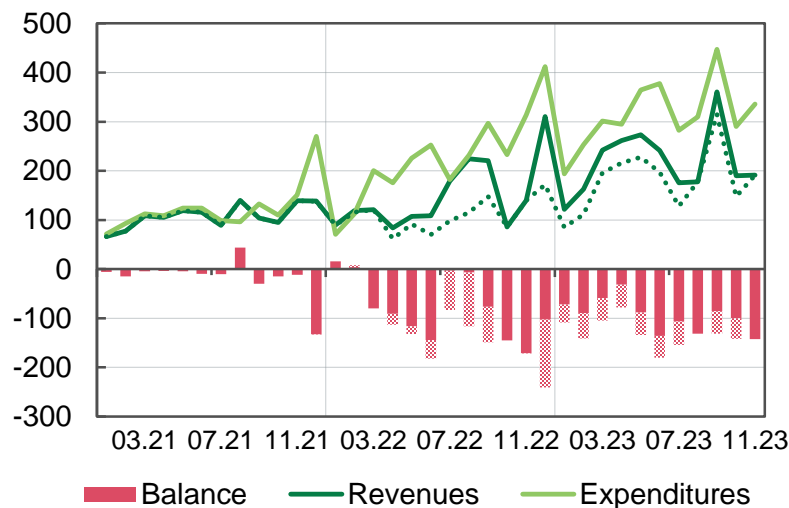
- The IOM estimates that, as of late September 2023, there were 3.7 million IDPs in Ukraine. Almost half of the IDPs were from Donetsk (24%) and Kharkiv (22%) regions. 47% of IDPs had their housing damaged or destroyed
- Over the year, the share of IDPs who have adapted at their new place of residence has increased. Accordingly, their plans to return, albeit still prevalent, have somewhat weakened. The largest share of those who plan to stay at their current place of residence was in the city of Kyiv and Zaporizhzhia region
- The number of migrants abroad increased slightly in November, to 6.3 million people, according to the UNHCR (was 6.2 million at the end of October). A slight increase on the eve of winter was anticipated
- According to October 2023 Gradus survey, the majority of migrants (62%) have adapted in their host country. The share of those planning to stay increased to 18% (from 8% in October 2022). The number of those who plan to return was still high, although it slightly decreased (to 63%, down from 67% in October 2022)



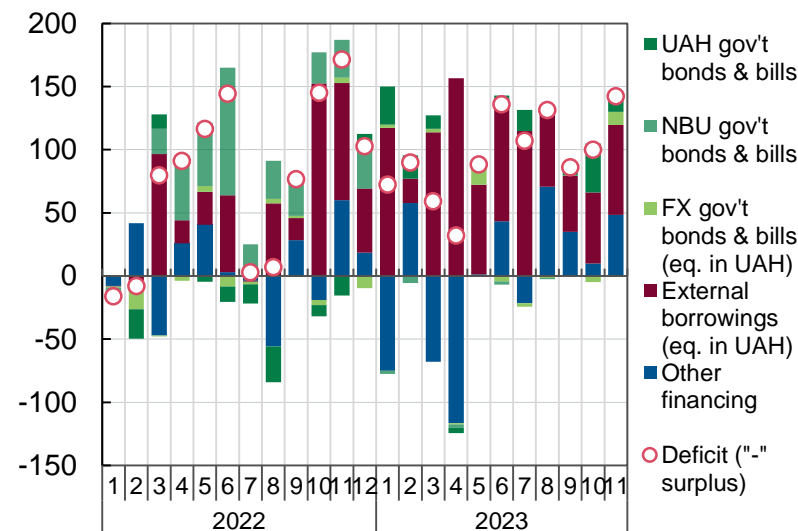
Ukraine: Fiscal sector

The budget deficit has been traditionally widening by the end of the year

Main state budget indicators* (monthly), UAH bn



State budget balance financing**, 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.

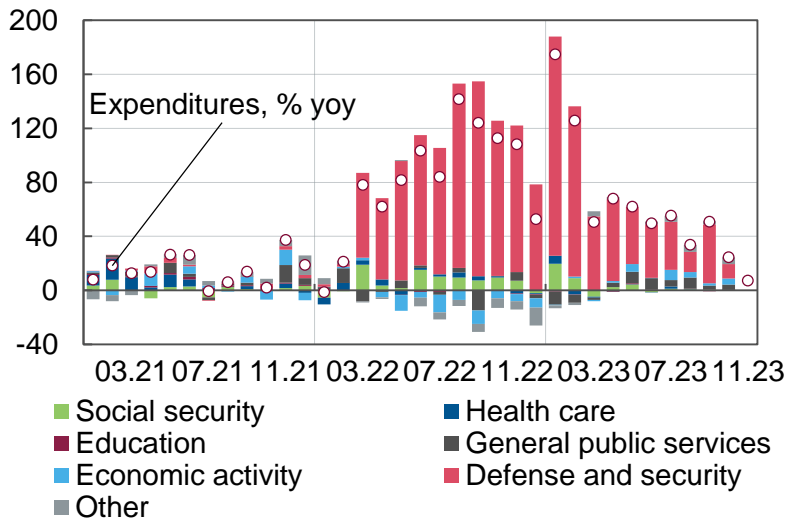
November – preliminary and high-frequency data from the MFU website. NBU calculations based on the MoF's website data.

Source: Treasury, MoF, NBU staff calculations.

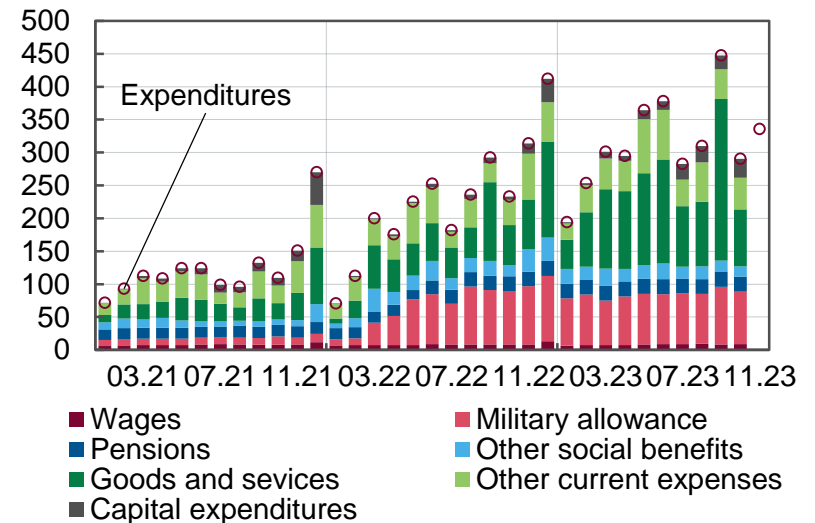
- In October-November, the state budget deficit expanded, excluding grants from revenues. For January-November 2023, the deficit reached over UAH 1,450 bn (UAH 1,045 bn including grants)
- As before, budget needs were primarily financed by international financial support (over USD 37.4 bn since the beginning of the year, with more than USD 4.7 bn received in October-November)
- Meanwhile, domestic borrowings also picked up. In particular, the amount of hryvnia government securities attracted to the budget exceeded those of the initial months of 2023 (when banks were allowed to use the benchmark domestic debt securities to meet reserve requirements). This was due to attractive yields on government securities

Expenditure growth has decelerated substantially

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



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



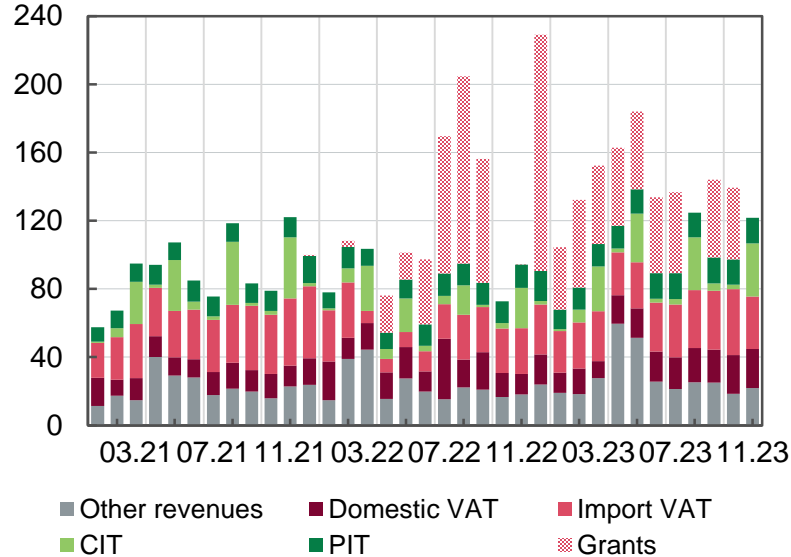
* November – preliminary data from the MFU website. NBU calculations based on the MoF's data.

Source: Treasury, MoF, NBU staff calculations.

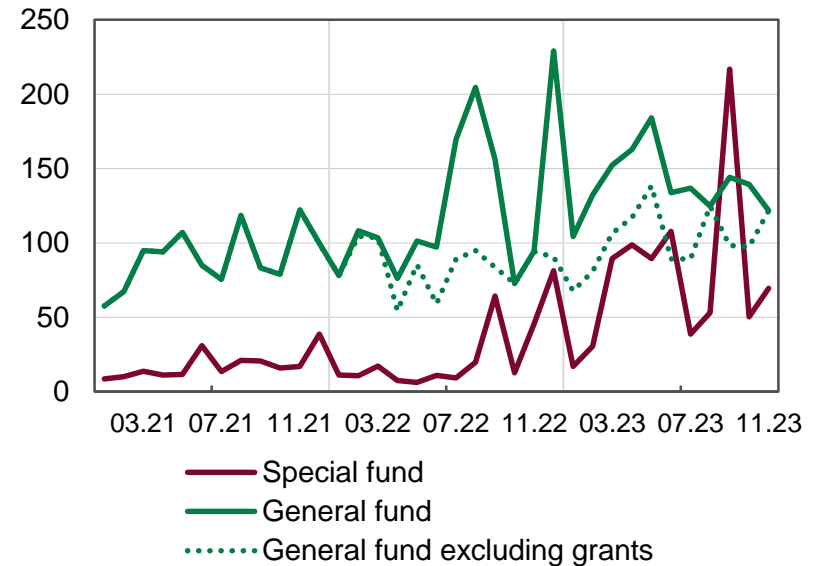
- After peaking in September, state budget expenditures have decreased significantly in both the overall amount and paces of increase in October-November, which, among other things, might have reflected weakened partners' support
- However, defense and security, as well as social care have remained priorities of budget spending (almost 66% and nearly 14% of all expenditures in January - October 2023, respectively)
- Capital expenditures, starting from July of the current year, have been substantial given the implementation of infrastructure projects, repair works, and well as the needs to prepare for the winter period

Revenues have been improving

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



Revenues of the state budget, UAH bn



* November – preliminary and high-frequency data from the MFU website. NBU calculations based on the MoF's data.
Source: Treasury, MoF, NBU staff calculations.

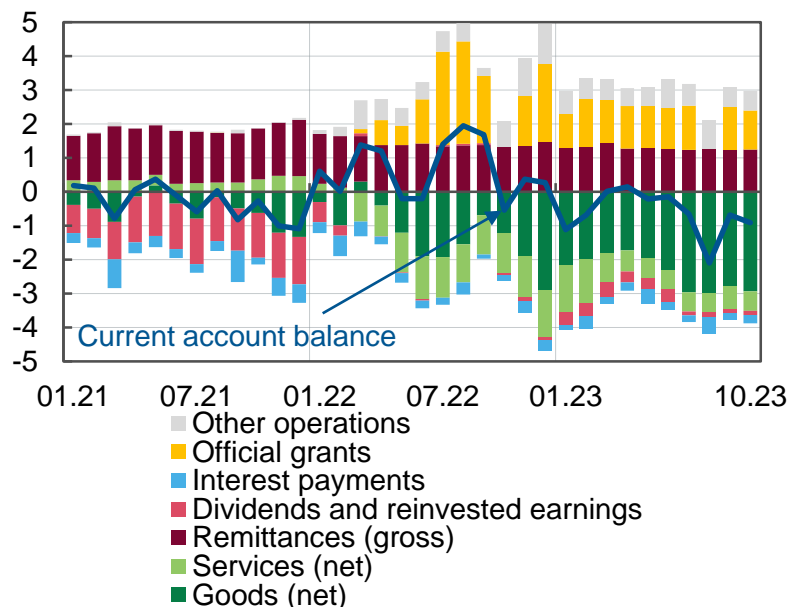
- Revenues (excluding grants) had fairly high growth rates (in particular, 36.7% yoy in November) on account of both tax and non-tax revenues
- Tax revenues continued to expand backed by the economic activity revival and improved tax administration measures. PIT, corporate income tax, and excise tax on domestic goods (primarily due to tobacco and tobacco products) remained important sources of revenue
- At the same time, the increase in the special fund revenues in November was likely associated with the inclusion of the "military" PIT, previously directed to local budgets



Ukraine: Balance of Payments

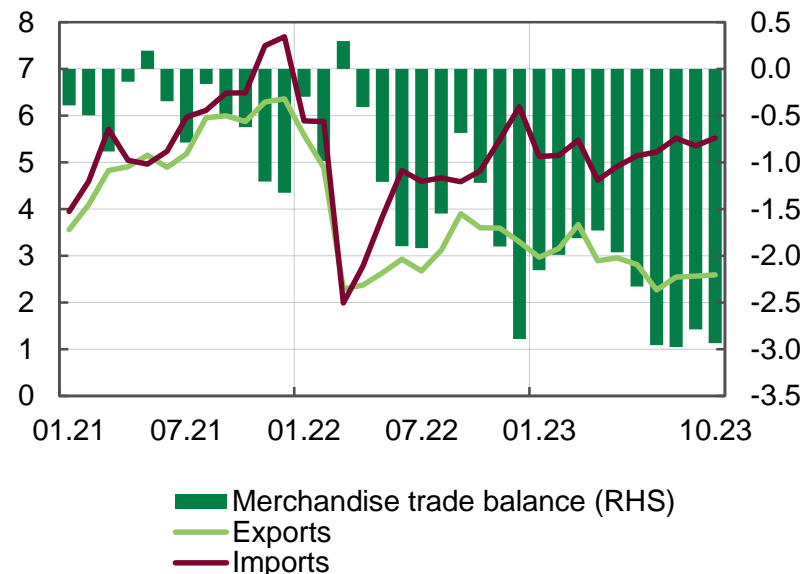
In October, the widening of the CA deficit was further restrained by international grants and resilient remittance inflows

Current account balance, USD bn



Source: NBU staff calculations.

Merchandise trade, USD bn

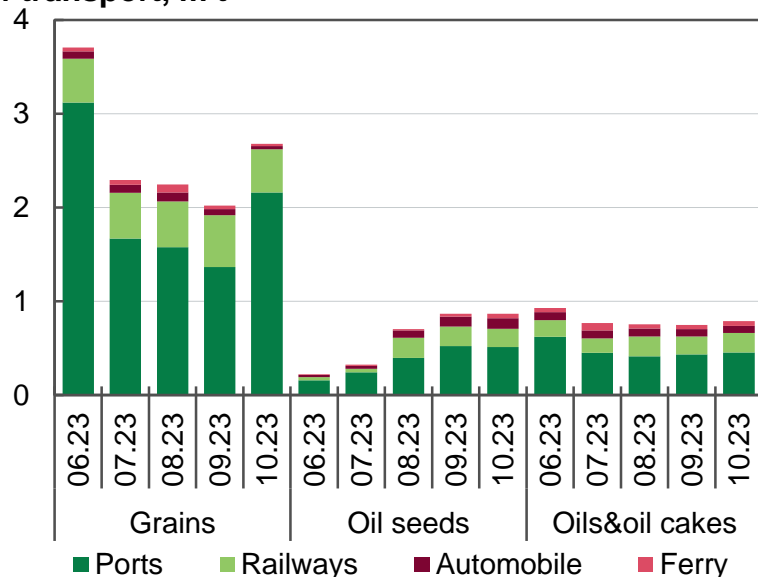


Source: NBU staff calculations.

- In October, the balance of trade in goods remained nearly unchanged compare to the previous month. Despite sustained high imports, the exports of goods remained at the level of previous months due to increased shipments of grain by sea
- Moreover, the deficit in trade in services narrowed, partly attributed to the rise in exports of toll-refining and air transport services
- Furthermore, the widening of the current account deficit was restrained by the receipt of another grant from the US and resilient remittances

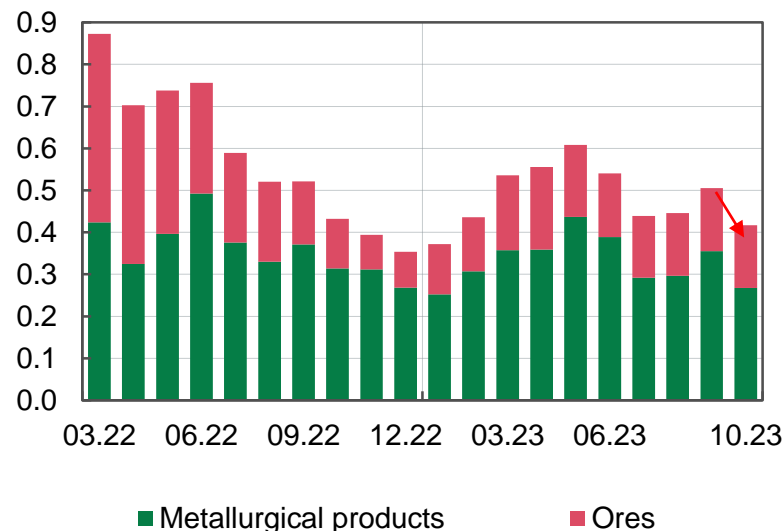
Exports of goods remained flat; the increase in grain sea shipments offset the decline in exported ores&metallurgical goods

Exports of selected agricultural products* by mode of transport, m t



* Grains and oil seeds, sunflower and soybean oils, oil cakes.
Source: Ministry of Agrarian Policy and Food of Ukraine.

Exports of ores&metallurgical products, USD bn

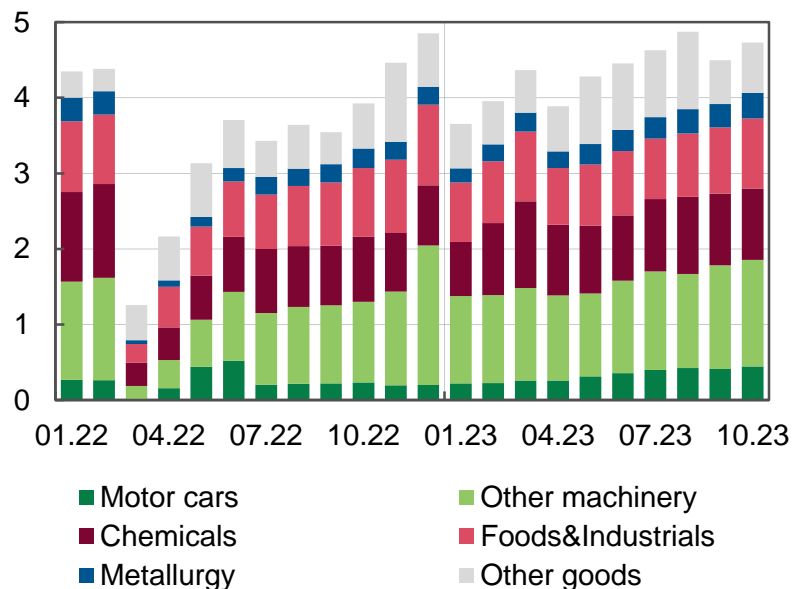


Source: NBU.

- Food exports expectedly increased compared to September, primarily driven by higher shipments of new crop corn through the temporary sea route. A partially released logistics capacities in alternative transport modes have also contributed to the seasonal upsurge in supplies of oil and fat industry products and sugar
- Meanwhile, the exports of metallurgical products declined, influenced by both reduced demand for pig iron from European metallurgists and a decrease in domestic production of rolled products. The exports of iron ore saw minimal change compared to the previous month; the increase in its supplies, facilitated by the temporary sea route, was counterbalanced by a decrease in export prices

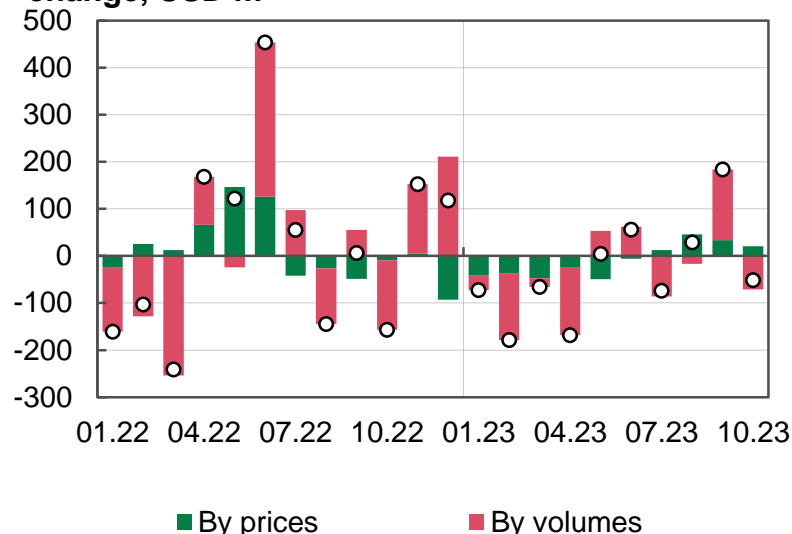
Imports of goods remained high, driven by the needs of the defense sector and a renewed demand for machinery

Non-energy imports, USD bn



Source: NBU staff calculations.

Imports of petroleum products, monthly absolute change, USD m

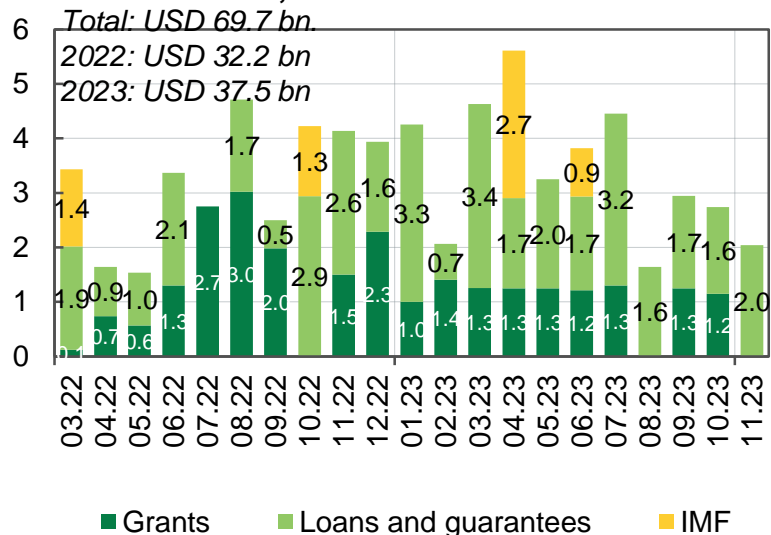


Source: SCSU, NBU staff calculations.

- In October, substantial demand from the defense sector, revival of economic activity, and the restoration of infrastructure stimulated the growth of non-energy imports, including purchases of selected industrial equipment and metallurgical products. As part of preparations for winter, the population and businesses intensified purchases of emergency power supply equipment. The imports of new and used cars also continued to increase
- Food imports rose on the back of purchases of seasonal fruit, among other things, while purchases of manufactured goods declined slightly after a surge in September
- Energy imports decreased, among other things, due to the introduction of new rules for the customs clearance of petroleum products and LPG, as well as a lower need for electricity imports

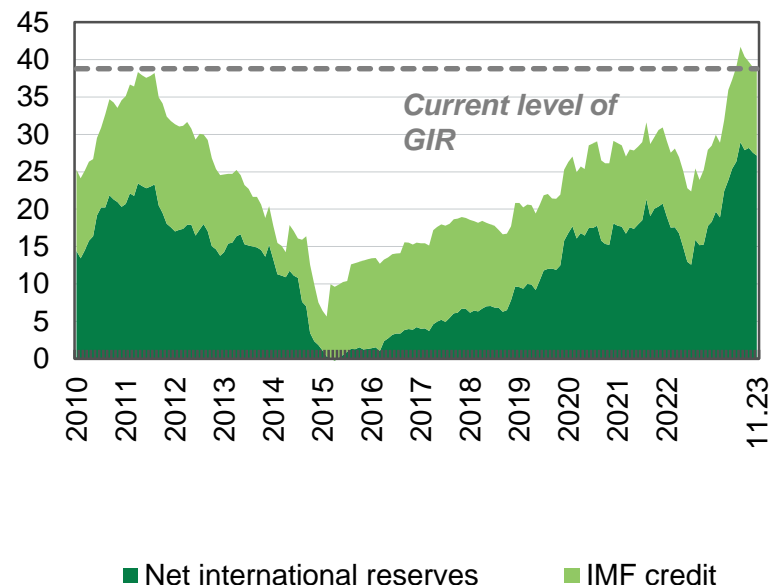
Despite a temporary surge in FX demand reserves stand at a high level

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



Source: NBU, open sources data, MoFU.

International reserves, USD bn



Source: NBU

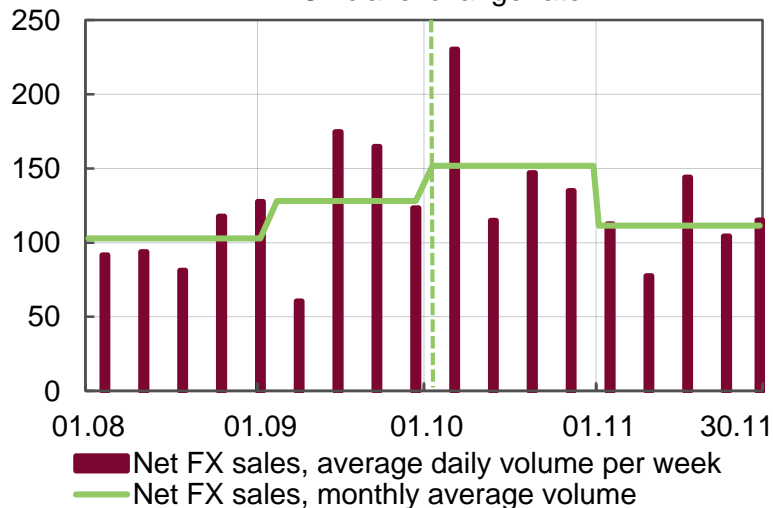
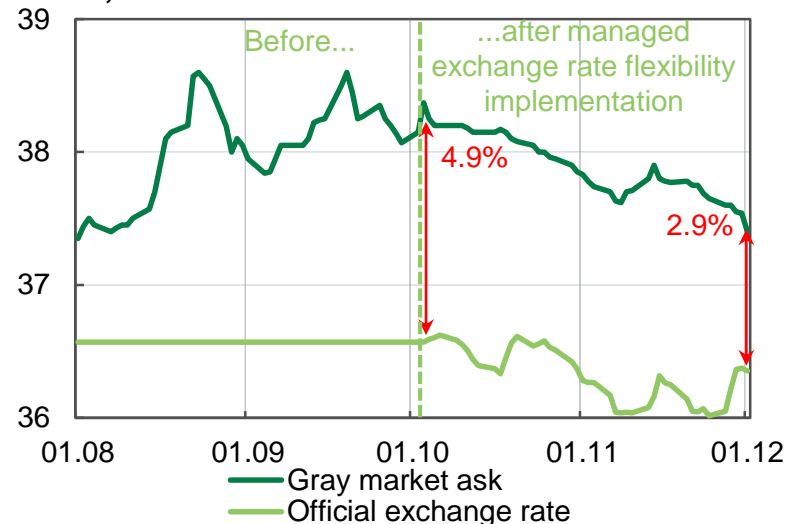
- In October, a temporary surge in demand for foreign currency amid information anxiety accompanying the transition to the regime of managed flexibility led to an increase in the NBU's interventions in the interbank market. Already in November, however, the volume of interventions decreased by more than a quarter compared to October
- The NBU's interventions, aimed at maintaining exchange rate stability, and the country's debt repayments were predominantly counterbalanced by financial inflows from international partners
- Despite a slight decrease, reserves remained at a high level of USD 38.8 bn at the end of November



Ukraine: Monetary sector

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

Hryvnia exchange rates, UAH/USD and net FX sales*, USD m



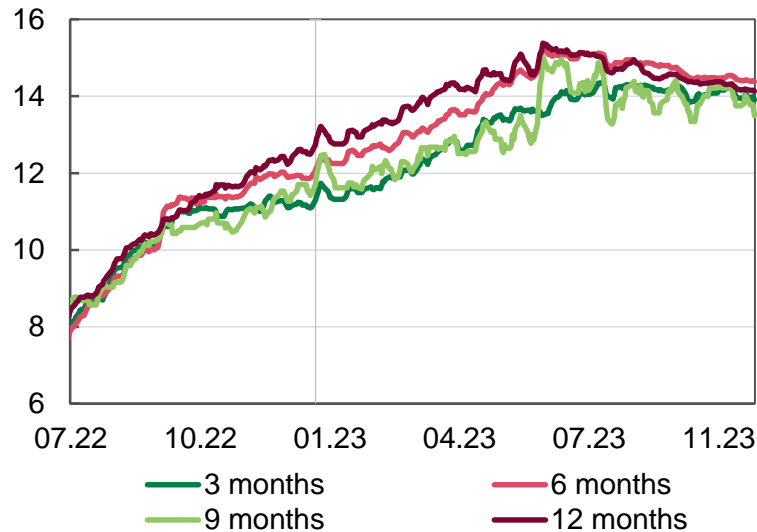
* Deal date.

Source: NBU, open data sources.

- The situation in the FX market remained under control. The NBU continued to balance the FX market, compensating for the structural FX deficit, but allowing the exchange rate to fluctuate in both the direction of strengthening and weakening under the influence of change in the balance of demand and supply
- As of the end of November, the official exchange rate of the hryvnia against the US dollar has barely changed compared to October, but on average it slightly strengthened owing to:
 - calmed anxiety among businesses and individuals, and their adaptation to the new regime of managed flexibility
 - seasonal sales of foreign currency by businesses for tax payments
 - diminished speculative motives caused by uncertainty regarding future exchange rate dynamics
 - a relatively stable situation with exports (supported by significant grain deliveries by alternative sea routes) despite the border blockade, and a decrease in imports
- As a result of these factors, the volume of NBU interventions also decreased, although they remained significant, reflecting the need to meet the structural FX deficit. The NBU will remain a significant player in the FX market
- Given the sustainable market conditions, the NBU continued to ease FX restrictions

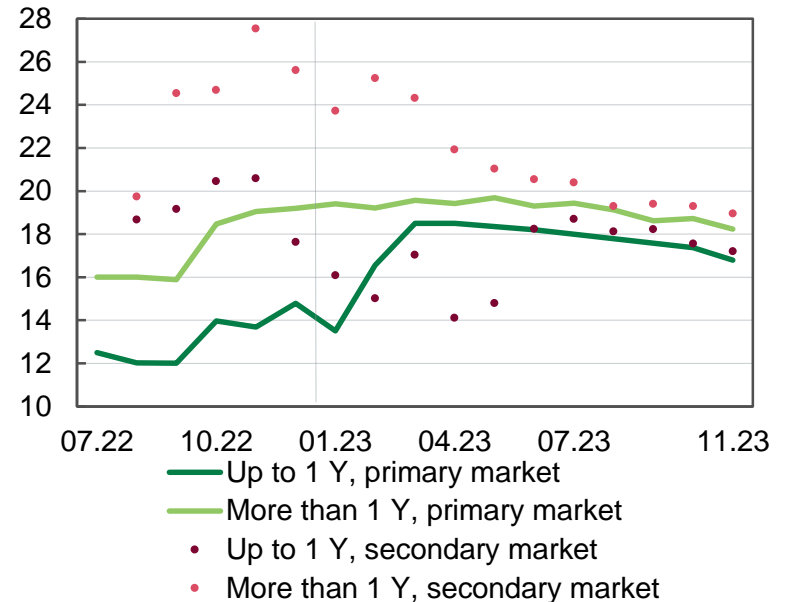
The yields on hryvnia instruments remain attractive

Ukrainian Index of retail deposit rates*, %



* 5-day moving average.
Source: Thomson Reuters.

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



Source: NBU.

- Nominal interest rates on term deposits and government debt securities decreased relatively slowly. In real terms, they even increased slightly amid improved inflation expectations
- The prospect of a further reduction in nominal rates boosted the demand for hryvnia assets
- As a result, term deposits of the households continued growing. Interest in government debt securities also persisted, including among individuals