

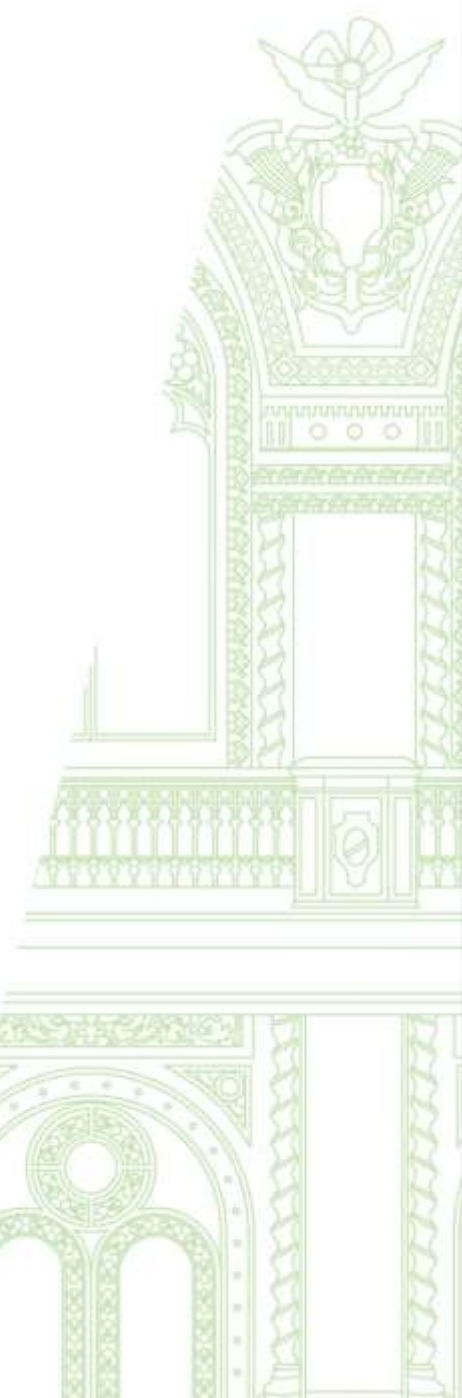


National Bank
of Ukraine

Monthly Macroeconomic and Monetary Review

June 2024

**Monetary Policy and Economic Analysis
Department**



Summary

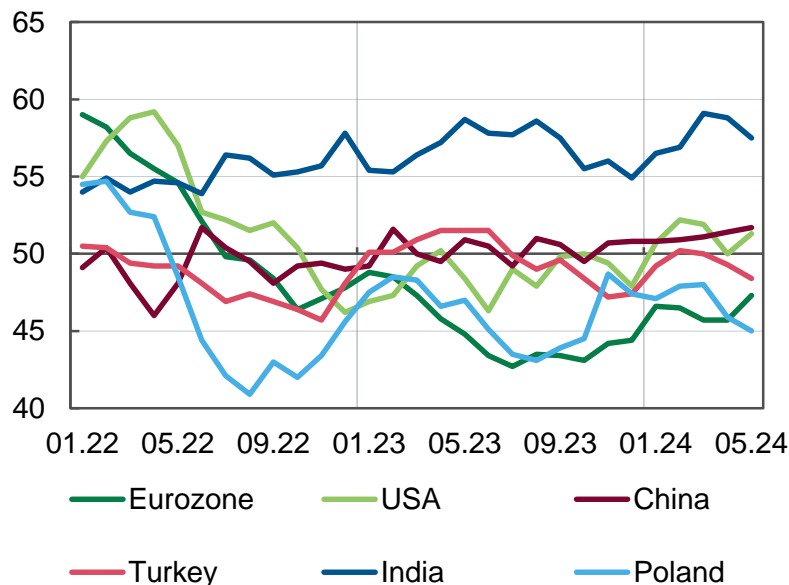
- **Economic growth in Ukraine's main trading partners (MTPs) is recovering and inflationary pressures remain persistent.** Global energy prices moved in opposite directions: oil grew cheaper and gas rose in price. Both major CBs and EM CBs are expected to cut interest rates more moderately given the relative persistence of inflation
- **In April, consumer inflation in Ukraine was flat from the previous month**, at 3.2% yoy. Raw food prices continued to decline amid warmer weather conditions, and inflation expectations remained at relatively stable levels. Core inflation accelerated somewhat, to 4.4% yoy, given higher cost of imports due to the blockade of the western borders and the exchange rate depreciation, and an increase in businesses' costs, in particular energy and labor costs, which also resulted in the acceleration of the PPI. According to the NBU's estimates, consumer inflation accelerated slightly in May
- **Business expectations and consumer sentiments worsened in May, pointing to weaker economic activity in a number of sectors**, notably due to restrained consumption of electricity and power outages. At the same time, the end of the blockade on the Polish border, the stable operation of the sea corridor and the processing of last year's significant harvests supported economic activity
- **The labor market recovery also decelerated somewhat** in May. At the same time, growth in households' incomes continued, including as a result of pressure on wages due to labor shortage
- In May, the **state budget deficit widened rapidly due to significant expenditures**. It was financed mainly by previously accumulated funds from international aid. Domestic borrowings also remained an important source of covering budget needs
- In April, the **external trade deficit narrowed**: despite regular shelling of ports, corn deliveries increased noticeably, while spending by migrants abroad declined. At the same time, **international reserves in April-May decreased due to lower volumes of international financial assistance**, but remained at comfortable levels: USD 42.4 bn as of the end of April and USD 39 bn as of the end of May
- The deterioration in the FX demand and supply balance led to a weakening of the hryvnia exchange rate in May, although **the situation in the FX market was generally under control thanks to the NBU's interventions**. At the same time, **hryvnia instruments for savings remained in demand**, even despite more active reduction in market rates



External Environment

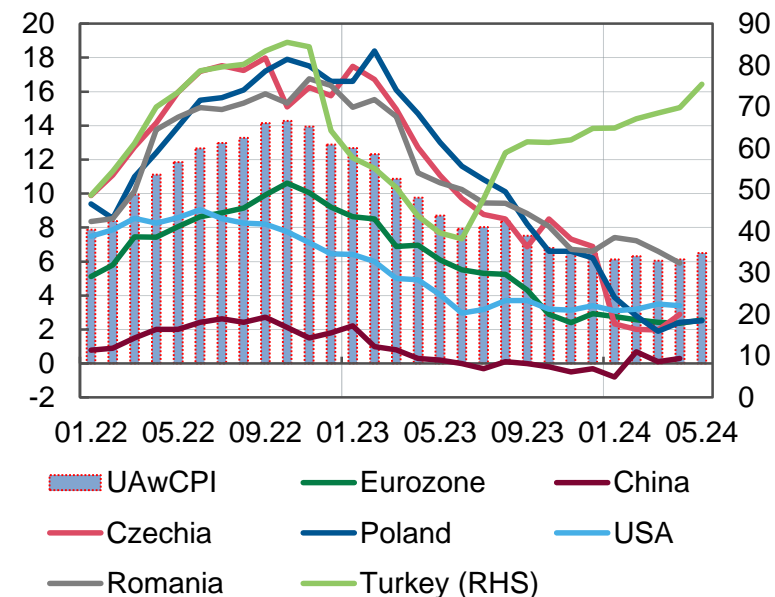
Economic growth in Ukraine's MTPs is recovering and inflationary pressures remain persistent

Manufacturing PMI of selected countries



Source: S&P Global.

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

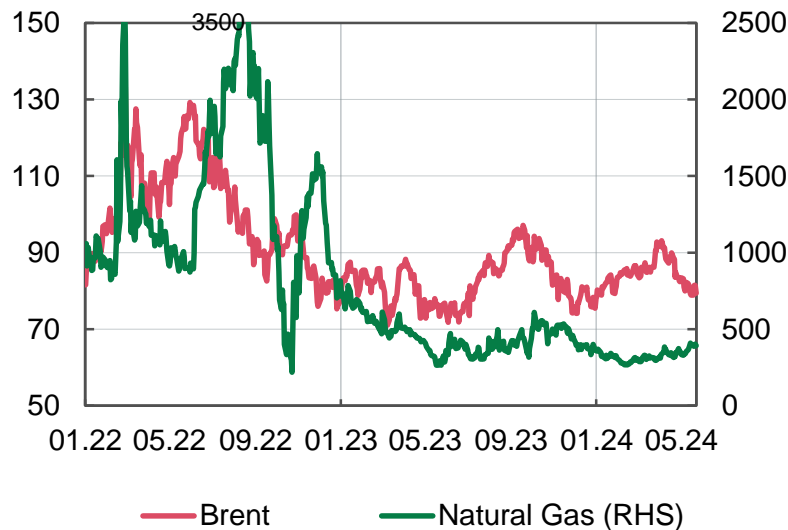


Source: national statistical offices, NBU staff estimates.

- Leading indicators showed signs of economic recovery in most of Ukraine's MTPs, primarily due to growth in new orders and employment. Additional factors included a gradual improvement in global trade and business optimism
- However, there is an increase in production costs and, accordingly, prime costs amid signs of a shortage of transportation services. The impact of supply disruptions due to the Red Sea crisis decreased compared to the beginning of the year
- Accordingly, due to the partial pass-through of production costs to consumers, inflationary pressure from Ukraine's MTPs (UAWCPI) remained persistent

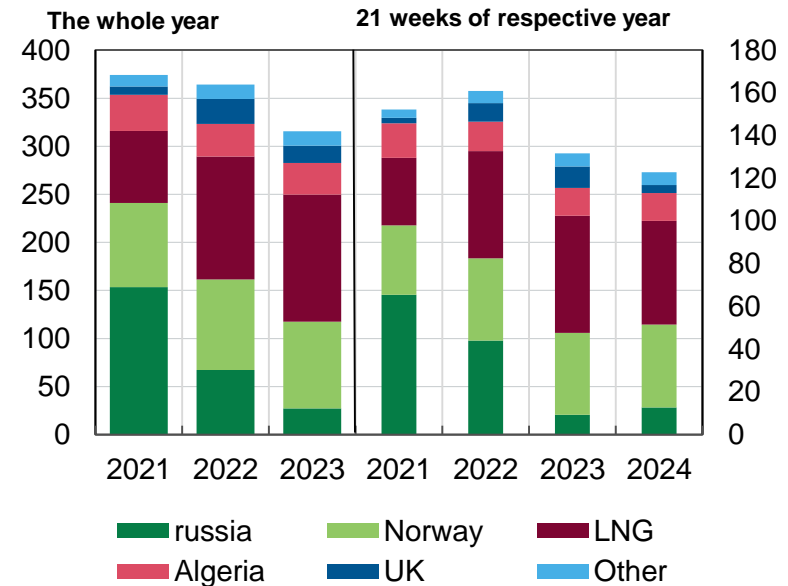
Global energy prices moved in opposite directions: oil grew cheaper and gas rose in price

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

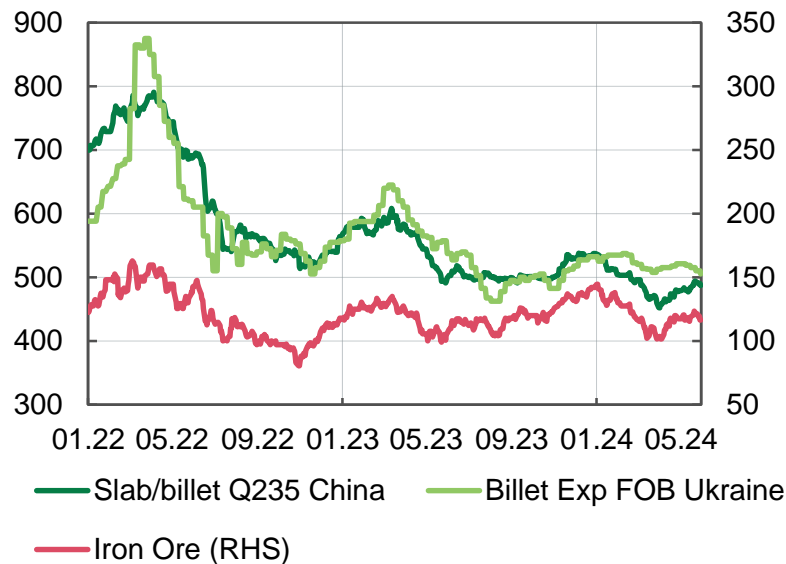


Source: Bruegel (Russia, Norway, Algeria – pipelines).

- **Global oil prices** declined despite the effect of OPEC+ production restrictions and the conflict in the Middle East. An important factor was rather weak demand in most regions of the world, especially in China, amid expectations of high interest rates being maintained, in particular by the Fed, and active production in Libya, Iran, Angola, and Venezuela
- **Gas prices in Europe** increased despite comfortable levels of stocks for the current period and the gradual resumption of production by Norway after technical repairs. A significant increase in demand in Asia due to hot weather (in particular, from China, Thailand, and India) and outages at LNG plants in Brunei and Malaysia limited European LNG imports and put upward pressure on prices

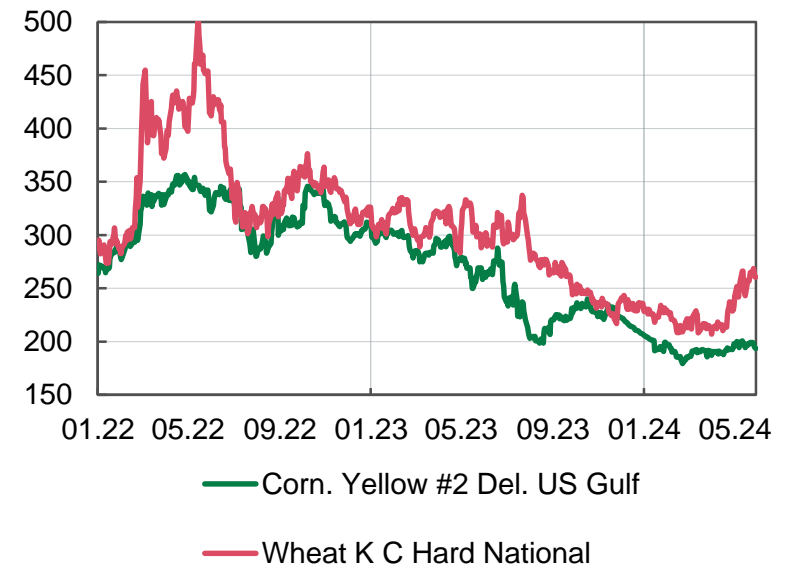
Global prices for commodities prevailing in Ukraine's exports were determined by the specifics of individual commodity markets

Global steel and iron ore prices, USD/MT



Source: Refinitiv, Delphica.

Global grain prices, USD/MT

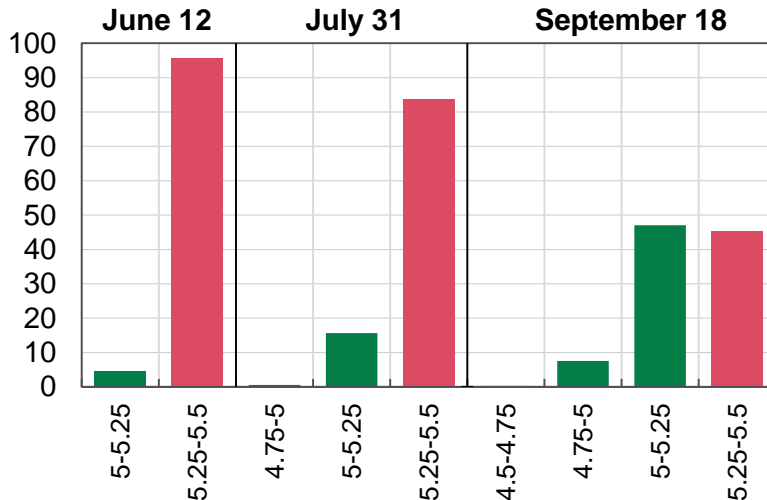


Source: Refinitiv.

- **Steel and iron ore prices fluctuated within a narrow range.** Sufficient steel inventories amid expectations of weaker activity in some regions due to the Eid al-Adha holiday in June, the monsoon season in SEA, and the summer vacation and heat wave periods weakened global demand. Only some optimism due to additional government measures to support China's economy and technical repairs at some enterprises kept prices from falling
- **Wheat prices rose, while corn prices stabilized somewhat.** Wheat prices rose primarily due to unfavorable weather conditions in the Black Sea region, which could negatively affect the MY 2024/25 harvest in the countries of this region. Meanwhile, the active market entry of Brazilian and Argentine harvest restrained corn prices

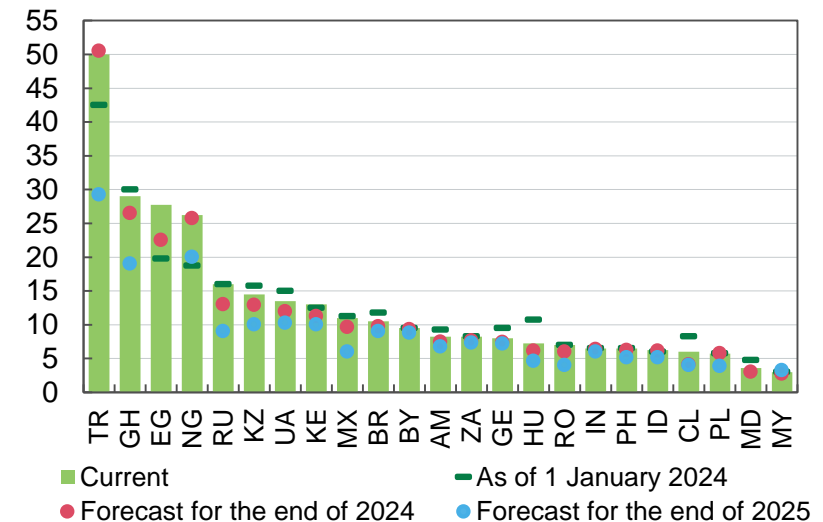
Both major and EM CBs are expected to cut interest rates more moderately given the relative persistence of inflation

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



The current level of the federal funds rate is marked in pink.
Source: CME FedWatch Tool, as of 31.05.2024.

Key policy rates in selected EM countries, %



Source: official web-pages of CBs, Focus Economics, Oxford Economics, as of 31.05.2024.

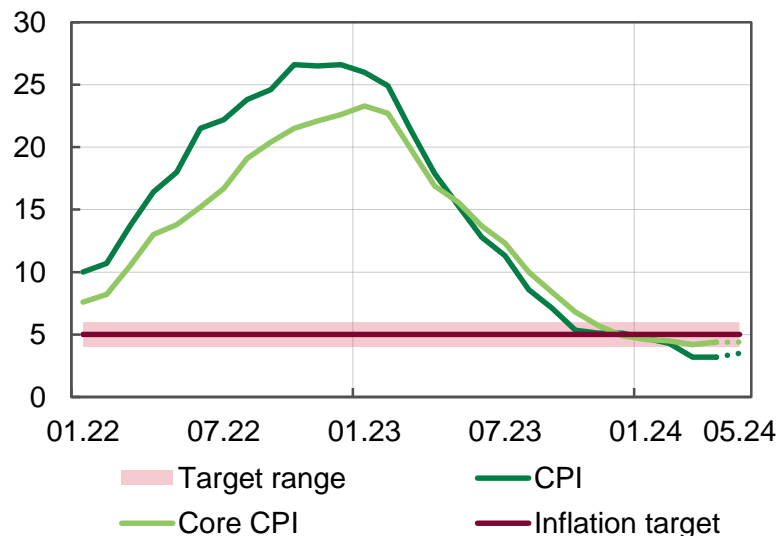
- The Fed** has left its target range for the federal funds rate unchanged in May and will slow down the pace of its asset reduction. Fed officials continue their cautious rhetoric, are calling for patience and are hinting at higher interest rates for longer amid strong economy and persistent inflation. The **ECB** signals that it will start cutting rates at June meeting, but there is no consensus on next steps
- Bets on easing of the CB's monetary policy this year have been pared. Traders are now fully pricing in two **ECB** moves and a third one with a 33% chance, and just one **Fed** rate cut with a 20% chance of a second one. At the same time, according to about 70% of economists polled by Bloomberg, the **ECB** might cut rates three times (previously 4-5 cuts)
- EM CB's** are forced to postpone or slow down the pace of monetary policy easing against the backdrop of high Fed rates being maintained



Ukraine: Inflation

Consumer inflation in April remained unchanged from March, while core inflation accelerated moderately

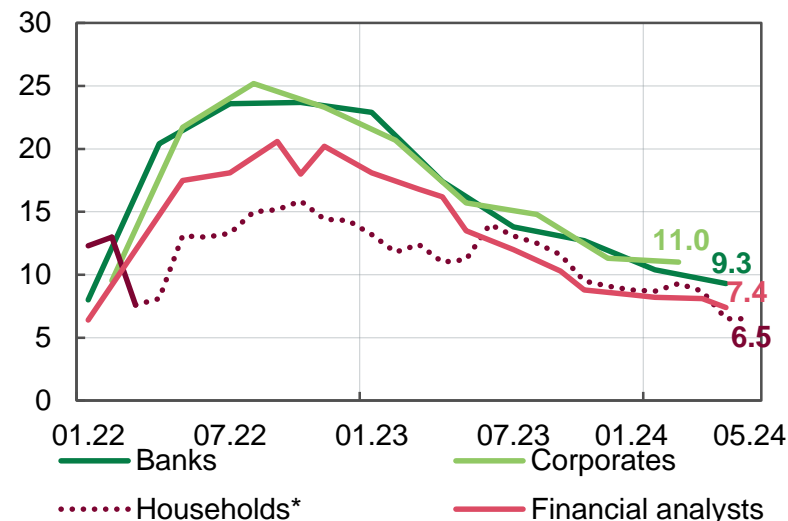
Inflation* and inflation target, % yoy



* Data for May reflects nowcast.

Source: SSSU, NBU staff estimates.

Inflation expectations for the next 12 months, %



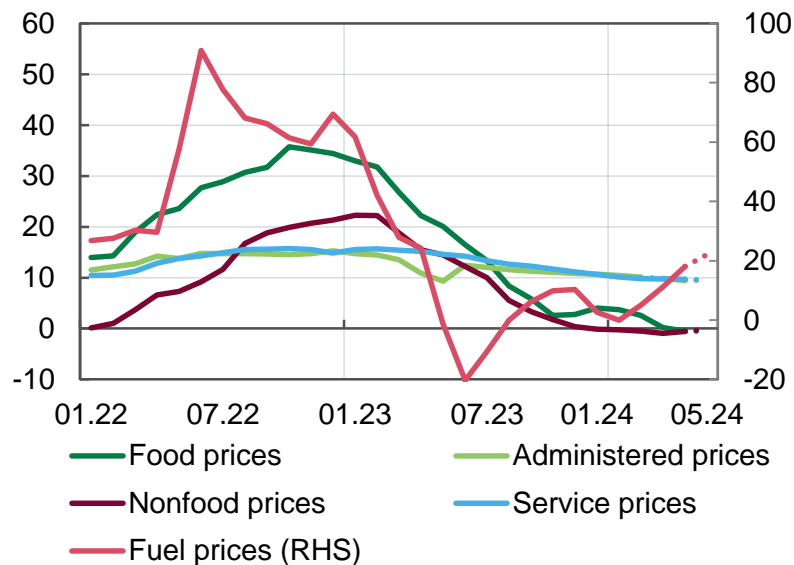
* The dotted line indicates a change in the method of survey for a telephone interview.

Source: NBU, Info Sapiens.

- The actual consumer inflation in April remained at the level of March (3.2% yoy) and was below the trajectory of the NBU's forecast published in the [April 2024 Inflation Report](#). Deviations from the forecast continued to be driven by temporary factors, primarily a steeper decrease in prices for raw food products amid a significant supply and the last year's ample harvests
- Meanwhile, core inflation slightly accelerated. Increase in labor costs and the increase in the cost of imports against the backdrop of the blockade of the western borders and the exchange rate depreciation fueled the underlying inflationary pressure
- In contrast, the underlying inflationary pressure was restrained by second-round effects from lower prices of raw food products and stable inflation expectations in the conditions of low actual inflation
- According to the NBU's estimates, inflation slightly accelerated in May

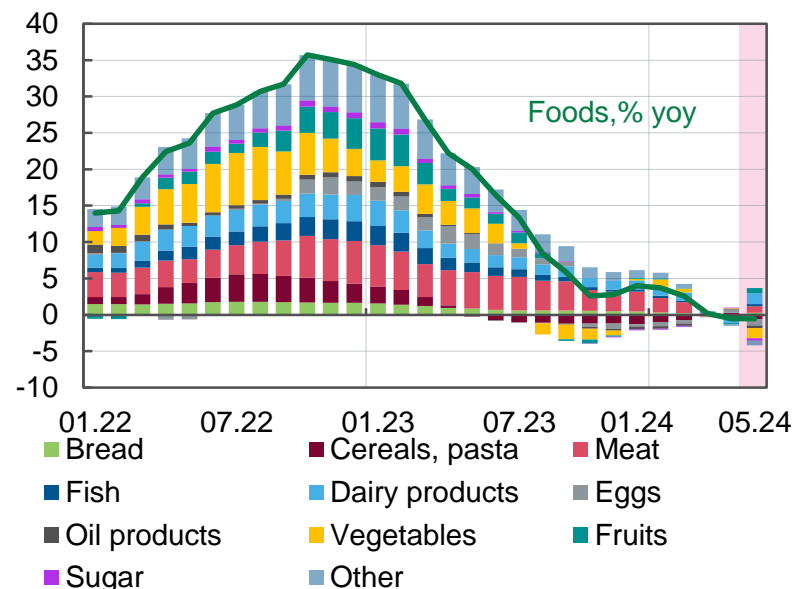
Prices for nonfood products decreased more slowly, while those for foods – at a faster pace

Selected CPI components*, % yoy



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

Contributions to the annual change in food prices*, pp

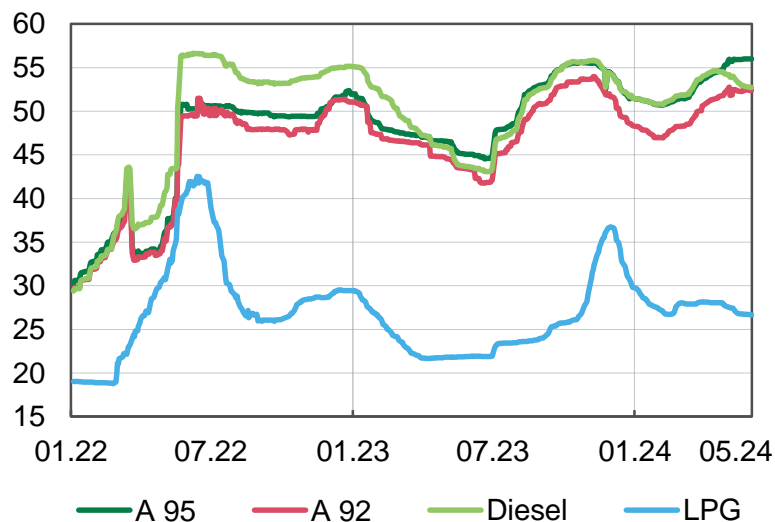


* Data for May reflects nowcast.
Source: SSSU, NBU staff estimates.

- The decline in food prices deepened due to a significant supply amid warmer weather conditions and a favorable situation in the energy sector in previous periods, second-round effects from the last year's ample harvests, and the reorientation of certain producers to the domestic market
- On the other hand, the growth in prices was fueled by a reduction in the supply of quality products (in particular, potatoes and beets). The growth in prices of milk accelerated as exports of dairy products increased, as did price growth of some imported products (soft cheeses, chocolate, coffee, olive oil, fruits) due to the effects of the blockade of the western borders
- Nonfood prices decreased more slowly, primarily due to a more gradual decline in prices for clothing and footwear. Service prices remained unchanged from March, primarily amid eased pressure from the business expenses on raw food materials

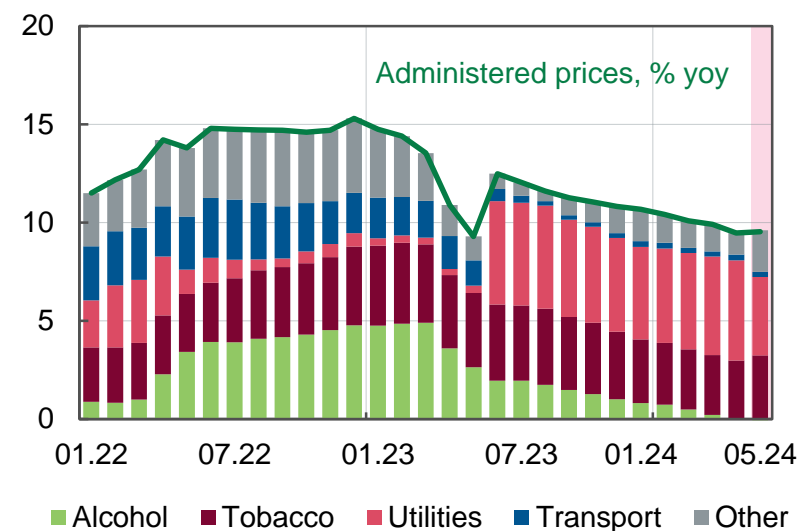
Administered inflation slowed down, while fuel price growth accelerated

Fuel prices, UAH / L



Source: minfin.com.ua.

Contributions to the annual change in administered prices, pp



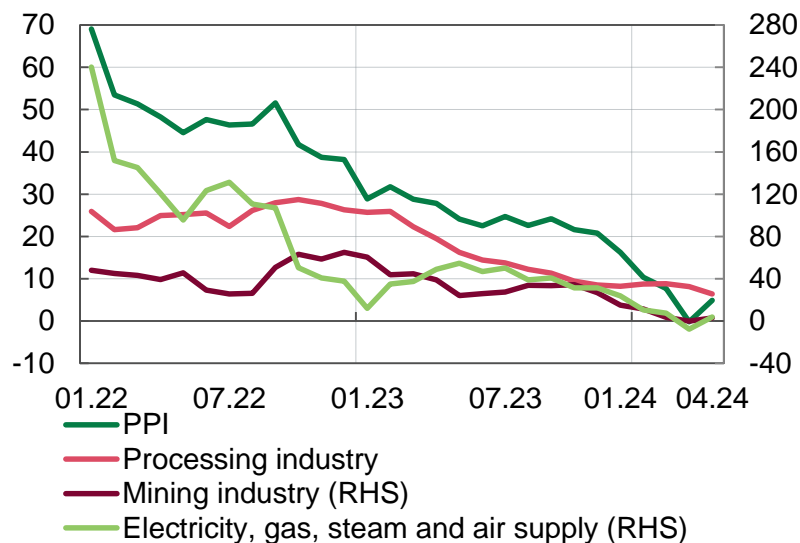
* Data for May reflects nowcast.

Source: SSSU, NBU staff estimates.

- Fuel price growth accelerated in April primarily driven by the rise in global oil prices and the drawdown of stocks of oil products imported at a lower price
- Price increases for alcoholic beverages continued to decelerate due to reduced pressure from business expenses on raw materials and administered costs, and because of competition from the shadow market supply. The growth in tobacco product prices halted
- The moratorium on raising utility prices for households also restrained the increase in administered prices

Producer prices accelerated primarily driven by energy prices

PPI and its components, % yoy



Estimated changes in purchase prices*



* Indicators have been calculated on the basis of inverted replies, with an increase indicating pessimistic views and a decrease indicating optimistic views. The survey was not conducted from March to May 2022.

Source: Monthly Business Outlook Survey by NBU.

Source: SSSU.

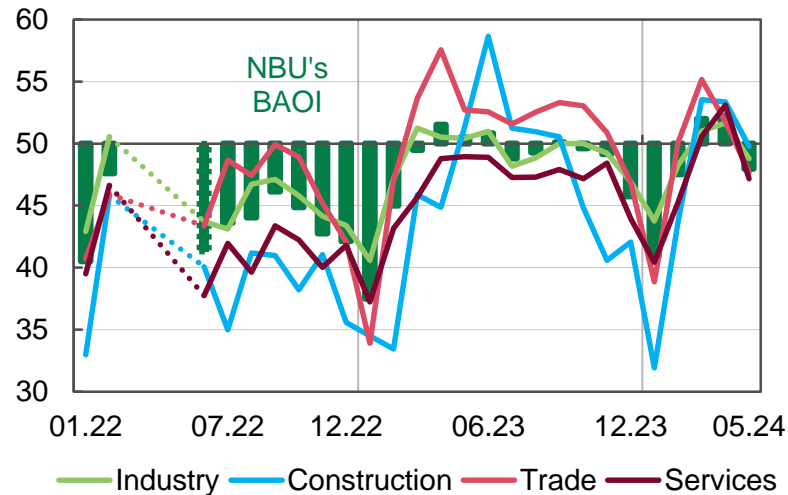
- In April, PPI growth resumed. This is primarily due to the rise in prices in the energy sector, especially electricity price increases in the day-ahead and intraday markets, which is explained by the loss of a number of generating capacities as a result of the shelling of the energy infrastructure by Russia
- Price growth in the mining industry accelerated under the influence of respective trends in global markets, as well as in certain sectors of the processing industry, including the food processing amid the intensification of dairy products exports
- Rising production costs due to growing logistics and import costs in the conditions of the blockade of borders, as well as labor costs amid lack of qualified staff remained important factors influencing producer price changes



Ukraine: Economic activity

In May, primarily amid consumption restrictions and power outages, business expectations worsened, ...

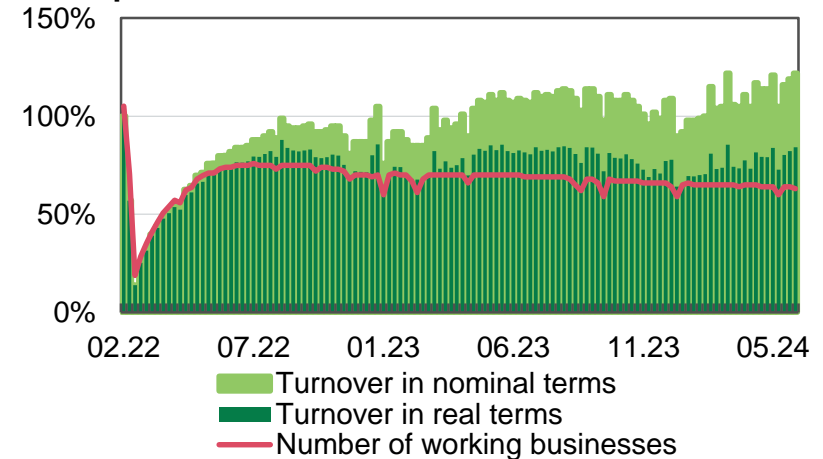
NBU's business activity outlook index, p



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

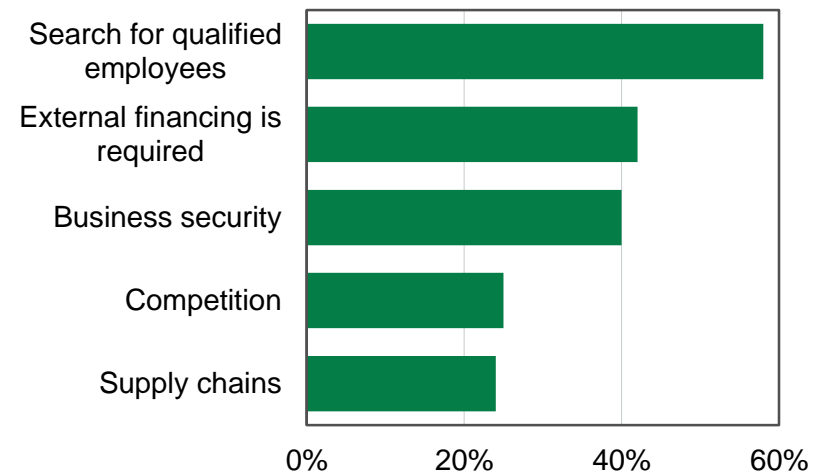
- The index of business expectations and other high-frequency indicators in May indicated weaker economic activity in most industries. This was caused by:
 - consumption restrictions and power outages
 - [increased danger for work](#)
 - [a shortage of skilled workers](#)

Performance indicators of the restaurant business, % to the pre-war level



Source: opendatabot.ua.

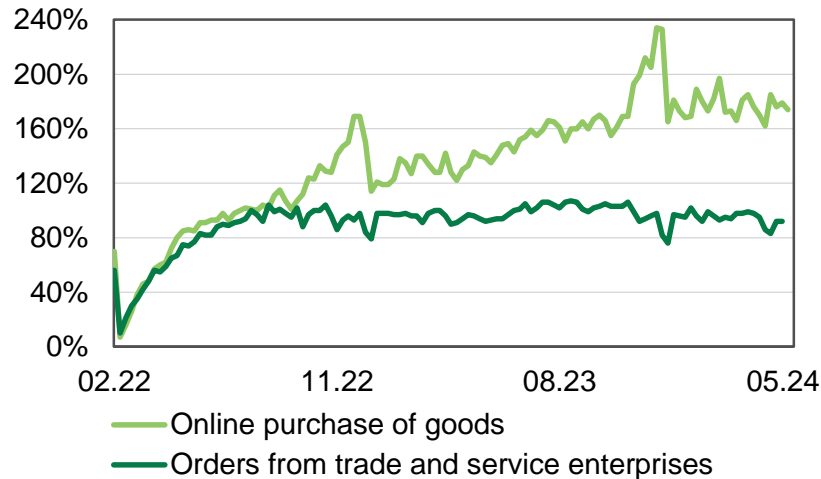
The main problems of businesses, % of answers



Source: Ministry of Economy of Ukraine.

...as did consumer sentiments

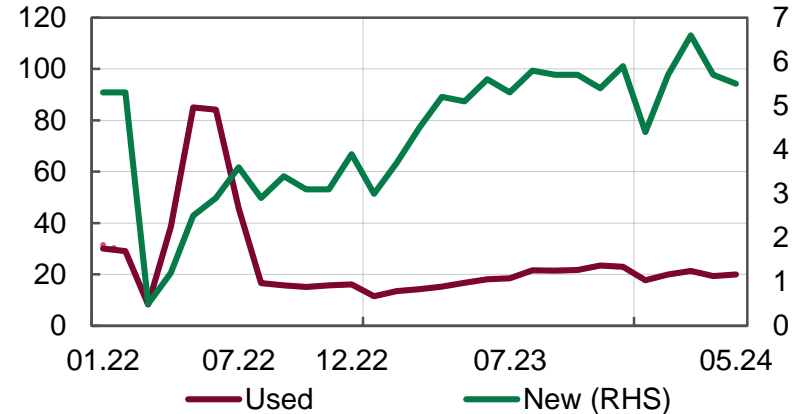
The number of online purchases of goods, % to pre-war level



Source: Opendatabot (Khoroshop and RemOnline services).

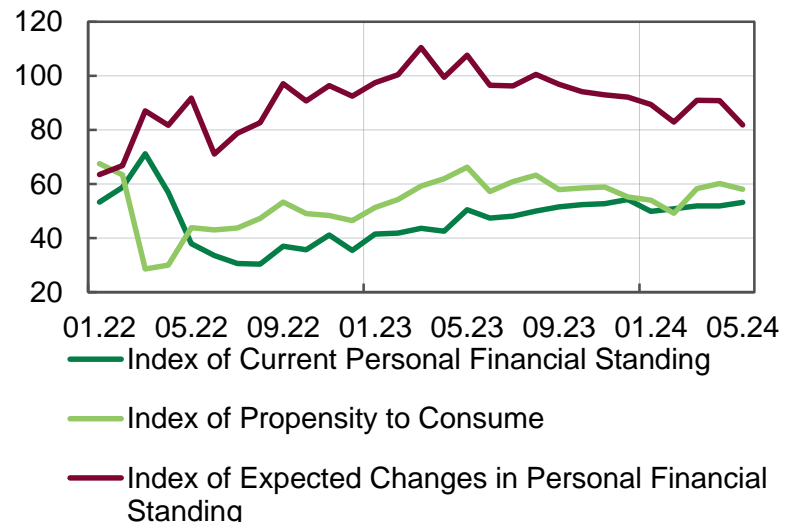
- At the beginning of May, [retail trade was supported by the Easter holidays](#); however, the industry's recovery was hampered by frequent shelling and the [longest air-raid alerts](#) since the beginning of a full-scale invasion
- At the same time, with the onset of power outages, [sales of self-powered products soared](#), and retail chains [kept stores running](#) thanks to autonomous generators and solar panels
- [Consumer activity on the car market](#) decreased in May - the number of sales decreased by 4% mom, and growth in annual terms slowed to 8%

The first registration of passenger cars, thousand units



Source: Ukravtoprom.

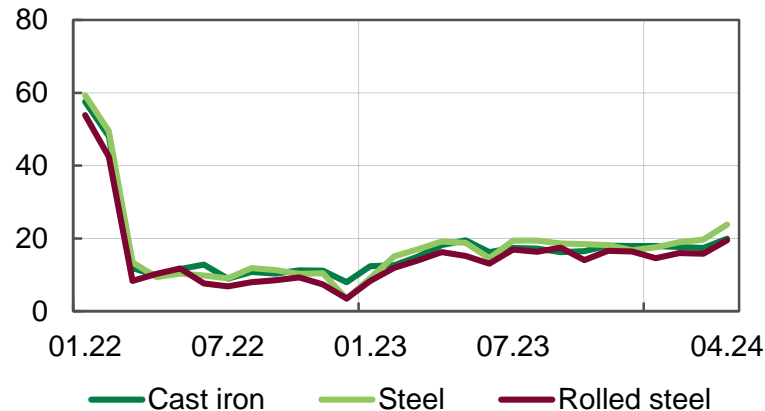
Components of the consumer sentiment index, p



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

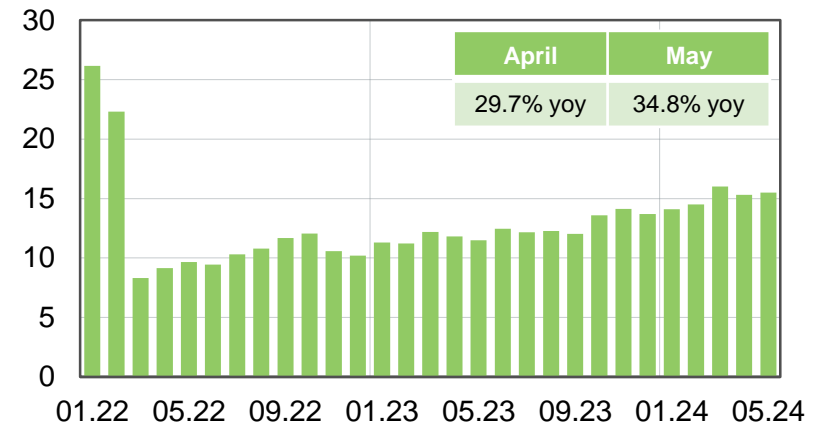
The end of the blockade of the western borders, the processing and export of last year's crops supported the economy

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



Source: Ukrmetallurgprom.

Rail freight transportation, million tons



Source: SSSU, Rail.insider, UZ.

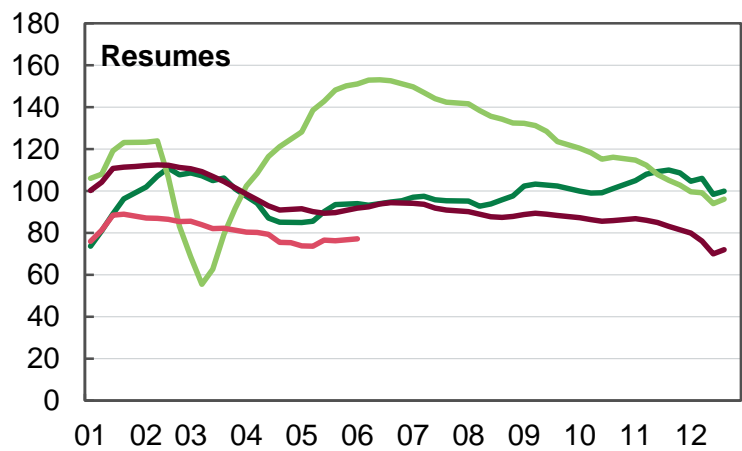
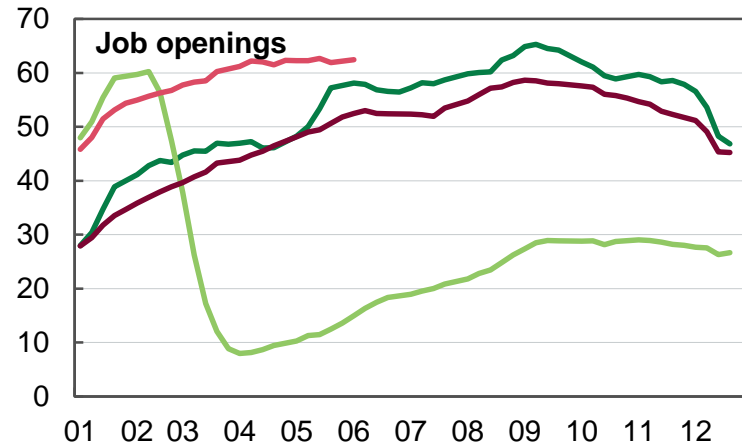
- In May, metallurgical plants [continued to take production facilities out of repair](#), however [power outages prevented the resumption of work](#) in the industry. The [loading of enterprises](#) of the chemical industry decreased due to the completion of the sowing season and a [decrease in the demand for fertilizers](#)
- [Gas](#) and [ore](#) mining enterprises increased capacity; coal mines [maintained high production rates](#), although their operations were [hampered by shelling and blackouts](#)
- As of the end of May, [spring sowing is almost completed](#); more than 7 million hectares of oilseeds and more than 5.5 million hectares of cereals were sown, [sugar beet crops](#) volumes are close to last year's. The vegetable growing season started earlier this year, and the supply of greenhouse products' supply [exceeded last year's](#)
- The processing of last year's significant harvests supported the [work of food industry enterprises](#), and the revival in animal husbandry supported the [production of fodder](#)
- The stable operation of the sea corridor and the end of the blockade of the Polish border contributed to the revival of cargo transportation. Thus, [road transportation for export purposes](#) increased by 8% mom, primarily due to the growth in their volumes at the Polish and Romanian borders. The [volume of transshipment](#) in ports also increased, and the growth of the volume of [railway transportation](#) accelerated to 34.8% yoy



Ukraine: Labor market

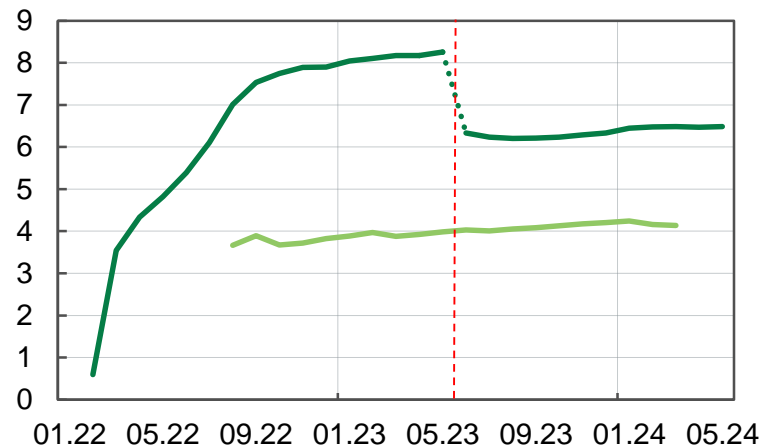
In May, growth in labor demand decelerated, while supply remained limited

Labor market indicators, four-week rolling average, thousands



— 2021 — 2022 — 2023 — 2024

Number of migrants, m persons



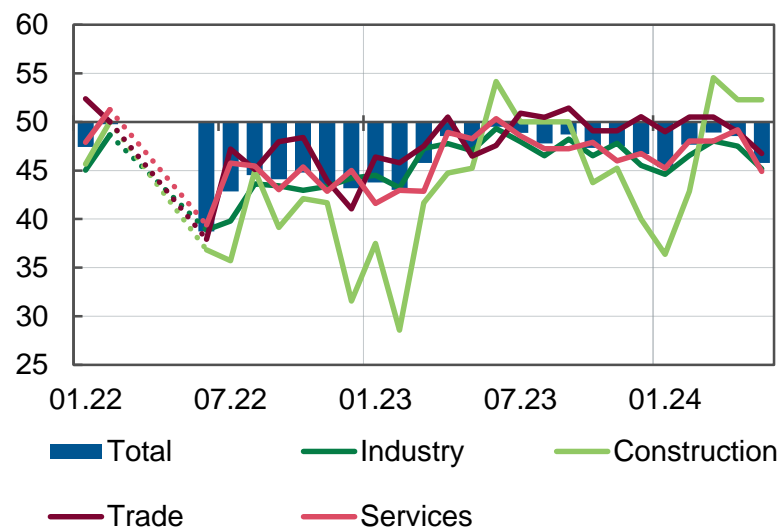
— All migrants abroad
— Temporary protection in the EU

Source: UNHCR, Eurostat.

- The number of new job openings on job search sites plateaued in May, which may reflect weaker economic activity
- At the same time, the number of job seekers, measured by the number of resumes, continued to decline year-on-year. In particular, labor supply was constrained by the continued, albeit moderate, outflow of migrants abroad

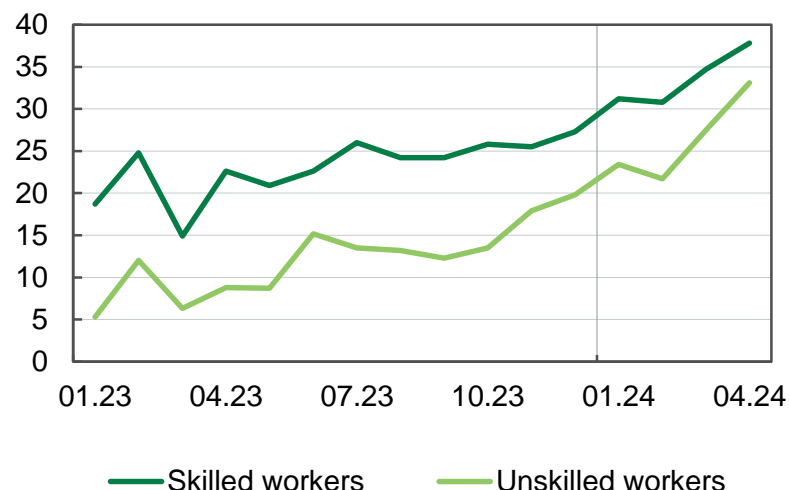
Companies are experiencing a significant shortage of employees...

Diffusion indices of changes in the number of employees, p



A level above 50 points indicates a predominance of positive assessments. The survey was not conducted from March to May 2022. Source: NBU.

Index for difficulty of finding new employees*

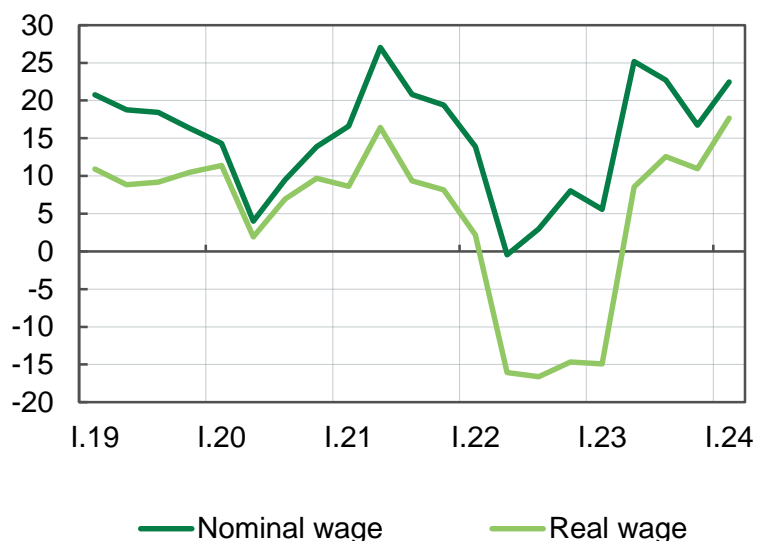


* Difference between the shares of answers: “finding employees has become more difficult” and “finding employees has become easier”. Source: IER.

- According to NBU surveys, in May, companies (except for construction sector) reduced the number of employees, which could also be due to the weakening of economic activity
- Deteriorating business prospects for enterprises, including as a result of power outages, are also affecting their employment expectations. Thus, according to the [IER](#) survey, the majority of enterprises (86.4% in April) do not expect changes in the number of employees in the next three months, but the number of those who expect further reduction (10.2%) is higher than the share of those who expect an increase (3.4%).
- According to the [EBA survey](#), three quarters of employers in Ukraine are experiencing staff shortages, while according to the [IER](#) survey, the share of those who report difficulties in finding both skilled and unskilled workers is growing

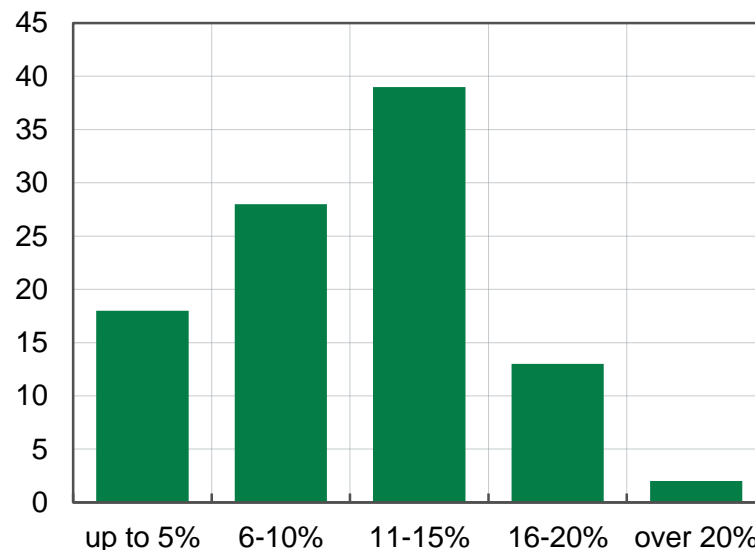
...which continues to put upward pressure on wages

Change in nominal and real wages, % yoy



Source: SSSU, NBU staff calculations.

Planned wage increases in 2024, % of responses



Source: EBA.

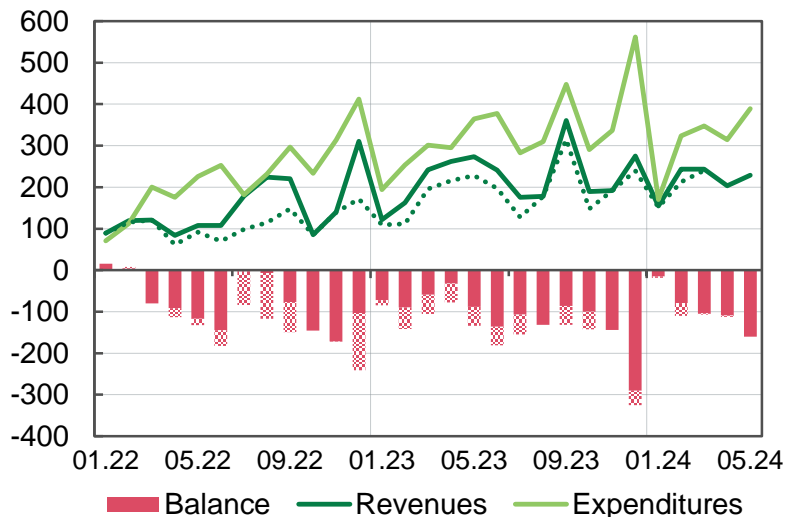
- According to the SSSU, nominal wages increased by 22.5% yoy in Q1 2024. The highest growth rates were seen in construction and hospitality (44% each), IT (36%), and transportation (31%)
- According to indirect estimates, wage increases continued in April and May. The indexation of pensions in March-April and increased payments to the military also supported household incomes
- According to the [EBA survey](#), the majority of companies (72%) plan to raise wages this year, with the most commonly mentioned range of increases being 11%-15%, which is higher than expected inflation



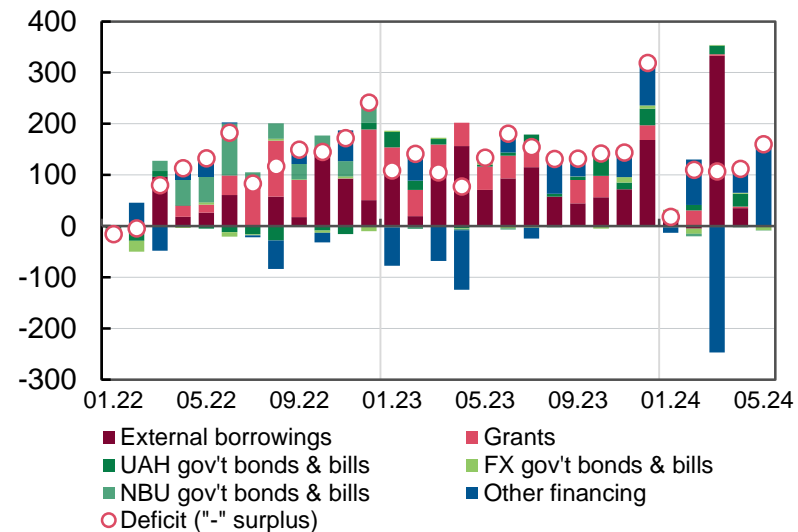
Ukraine: Fiscal sector

The state budget deficit widened rapidly in May

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.

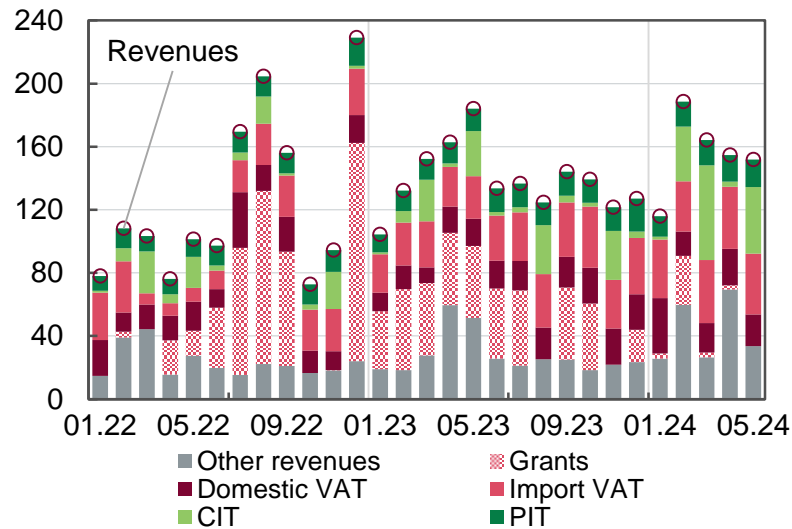
May – preliminary and high-frequency data from the MFU website. NBU calculations based on the MoF's website data.

Source: Treasury, MoF, NBU staff calculations.

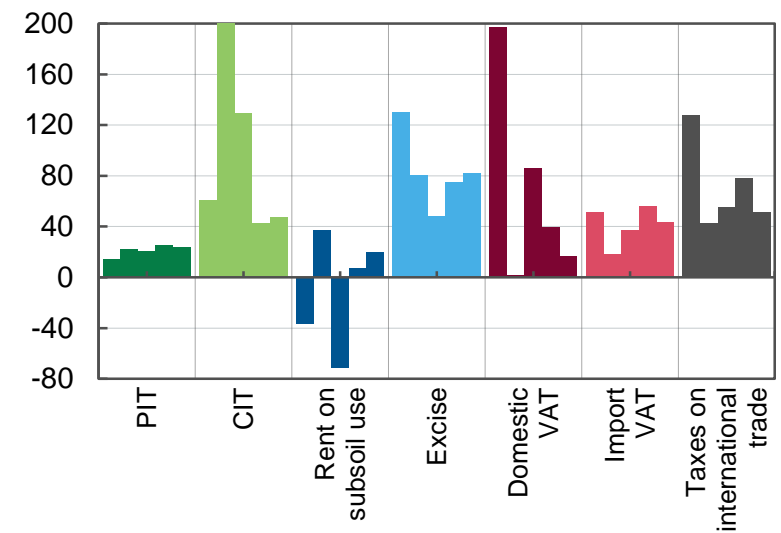
- The state budget deficit expansion is caused by high levels of expenditures
- Budget needs were financed mainly by previously accumulated funds, namely, significant international aid amounts in March-April (above USD 10.6 bn)
- Domestic borrowings, primarily in the national currency, remained an important source of financing budget needs, considering the "peak" of international aid receipts. Thus the rollover of domestic debt securities stood at 132% for five months of the year

Tax revenues, the fulfillment of which exceeded the plan, were the main source of budget revenues

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

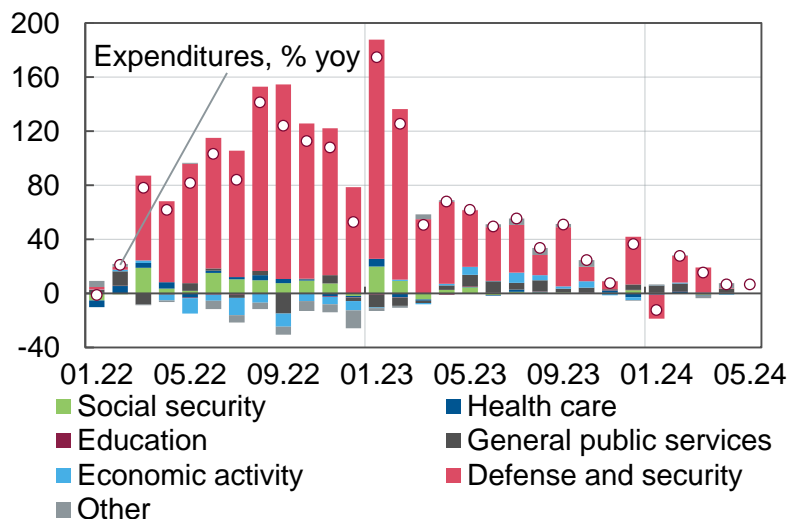


* May – preliminary data from the MFU website. NBU calculations based on the MoF's data.
Source: Treasury, MoF, NBU staff calculations.

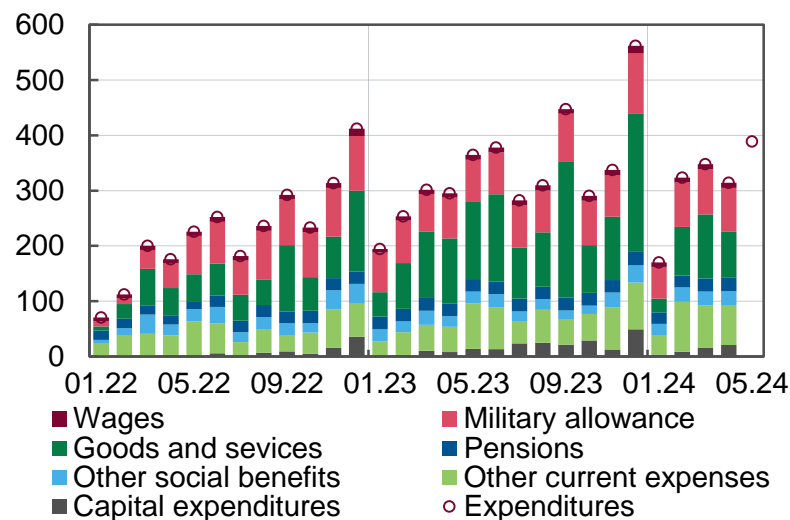
- The general fund tax revenues continued to grow at a high rate, exceeding the planned indicators. The increase in tax revenues was facilitated by the economic activity revival in the previous months, the financial results improvement, in particular those of banks, the weaker hryvnia exchange rate coupled with the effects of an increase in the minimum wage and the higher rate of the CIT for banks, as well as the end of the blockade of the western borders
- However, revenue growth (excluding grants) generally slowed down. This was primarily caused by a decrease in non-tax revenues due to the transfer of their part to the beginning of the year (in particular, mandatory payments by certain SOEs)

In May, monthly expenditures were the largest since the beginning of the year

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



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



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

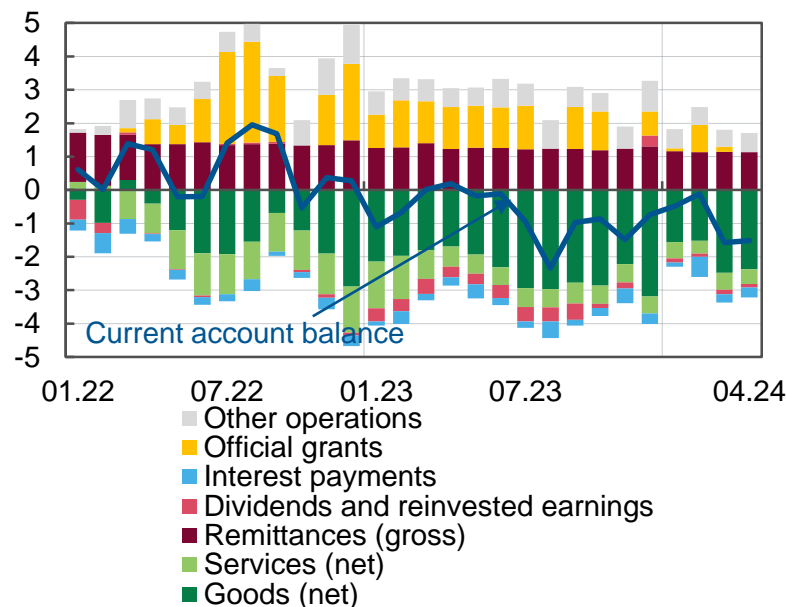
- The significant increase was likely related to a catch-up of restrained expenditures at the beginning of the year in a number of spending directions, in particular for military needs, including the construction of fortifications in [certain regions](#) and the elimination of the consequences of infrastructure destruction
- However, in annual terms, the increase in expenditures remained moderate



Ukraine: Balance of Payments

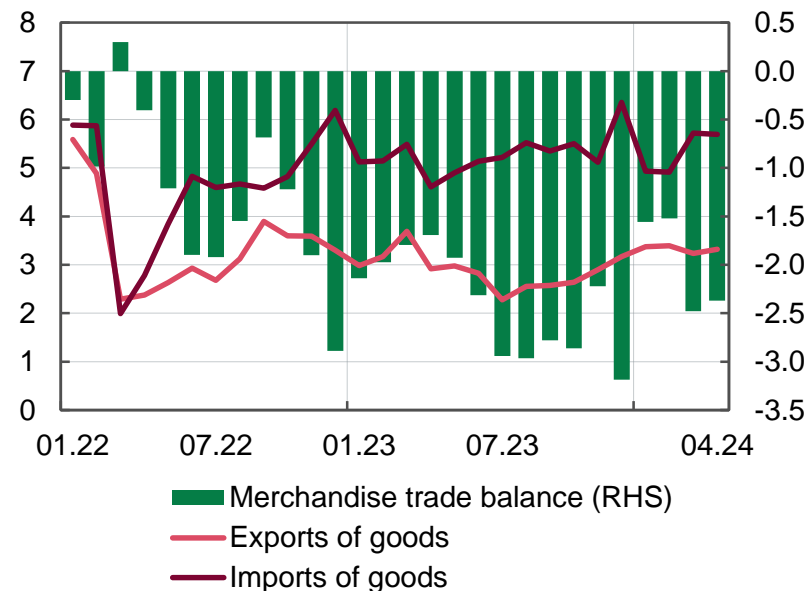
Despite the absence of grant assistance, CA in April remained unchanged due to the narrowing of the external trade deficit

Current account balance, USD bn



Source: NBU staff calculations.

Merchandise trade balance, USD bn

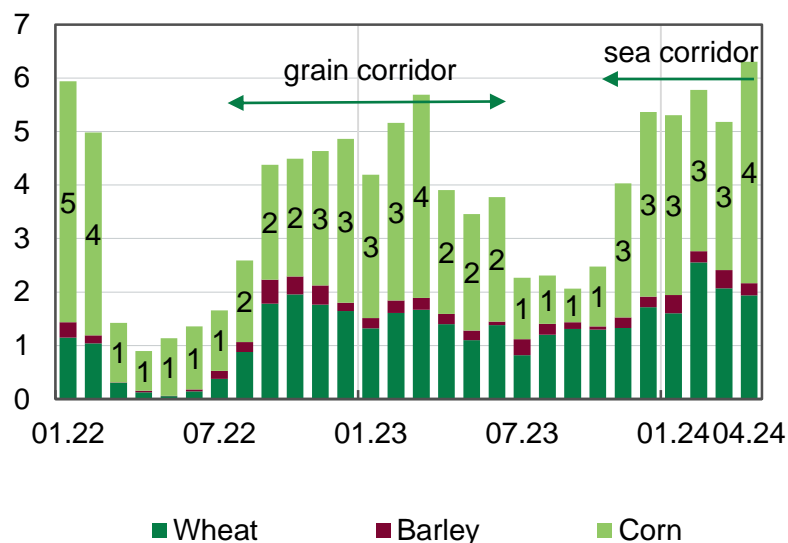


Source: NBU staff calculations.

- Despite attacks on energy and port infrastructure, exports of goods increased due to record corn shipments, while imports remained unchanged from March. As a result, the trade deficit in goods narrowed somewhat
- Additionally, the deficit in trade in services narrowed due to reduced spending by Ukrainians abroad
- At the same time, the current account deficit remained at the level of March due to the absence of international financial assistance in the form of grants

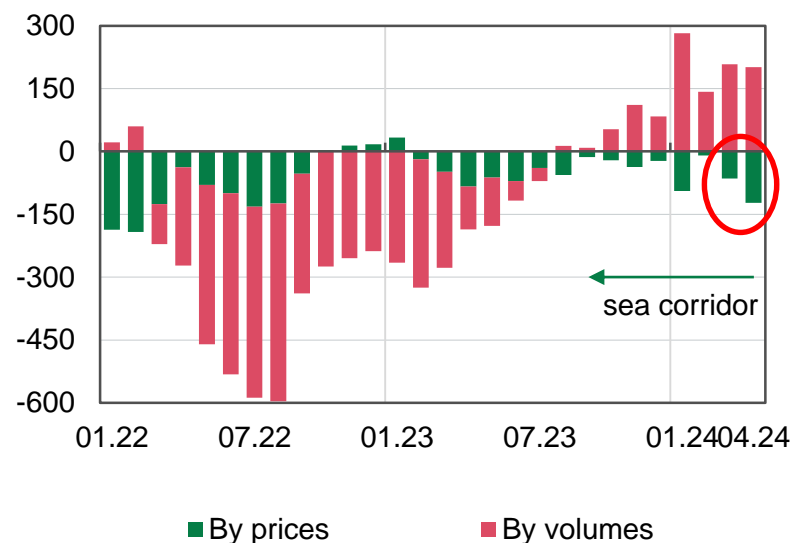
The export of goods increased due to record shipments of corn since the beginning of the full-scale war

Exports of grains, million tons



Source: SCSU.

Exports of ores, absolute annual change in USD m

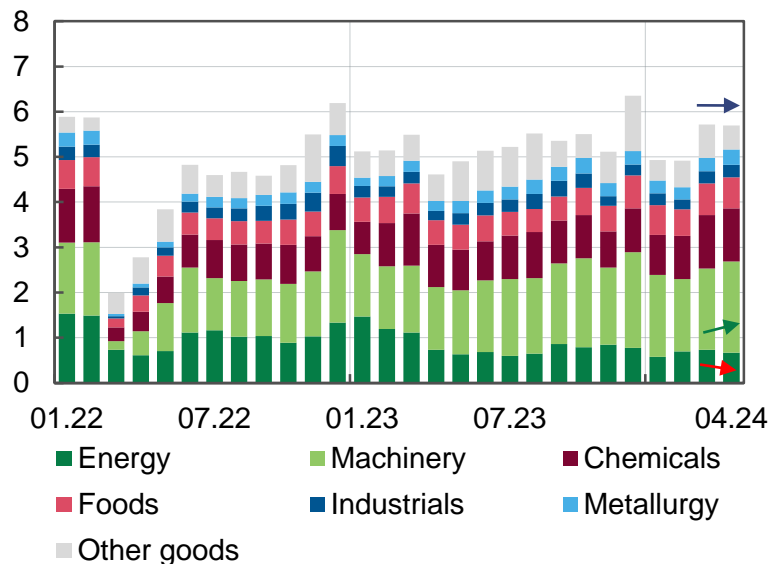


Source: NBU staff calculations.

- The high global demand for corn due to [problems with its cultivation in South American countries](#) contributed to the increase in its exports from Ukraine. In April, the highest volumes of shipments of both corn and grains overall since the beginning of the full-scale invasion were recorded
- An additional factor in the increase in exports of certain food products (animal feed, oil, and fats) and wood products was the easing of the blockade on the western borders in the third decade of the month
- There was a sustained increase in iron ore shipments, but the value of its exports decreased due to falling world prices as a result of [reduced demand from China](#)

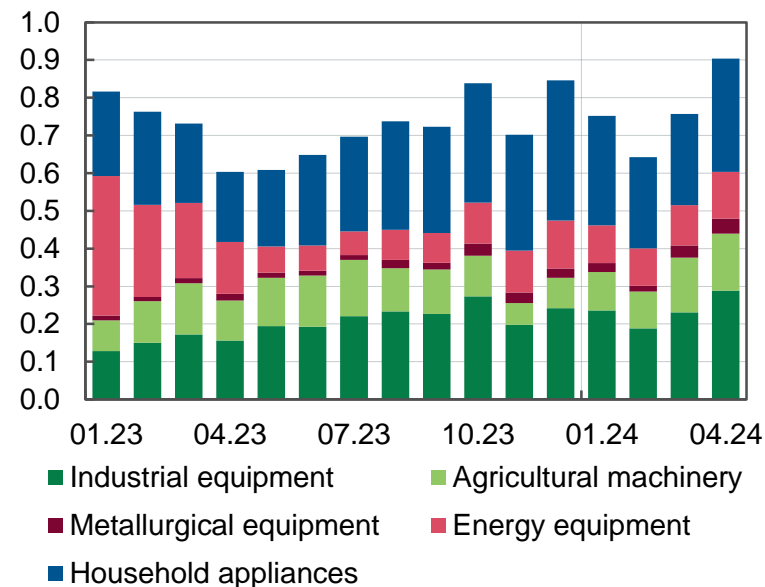
The import of goods remained unchanged: the effect of border blockade easing was offset by lower demand for oil products

Imports of goods, USD bn



Source: NBU.

Imports of selected machinery products, USD bn

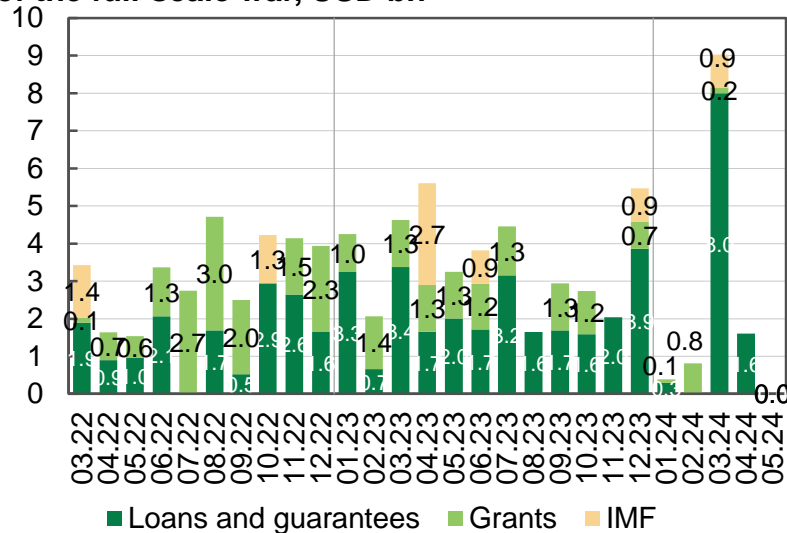


Source: SCSU.

- Some easing of the blockade of Polish borders in the third decade of April contributed to increased purchases of certain goods: machinery products, industrial goods, some chemical products, and woods and its products
- An additional factor in the increase in the import of machinery products was the high demand for energy equipment due to attacks on the energy infrastructure by Russia
- At the same time, the import of petroleum products decreased due to their price increases and a surplus of diesel in the domestic market

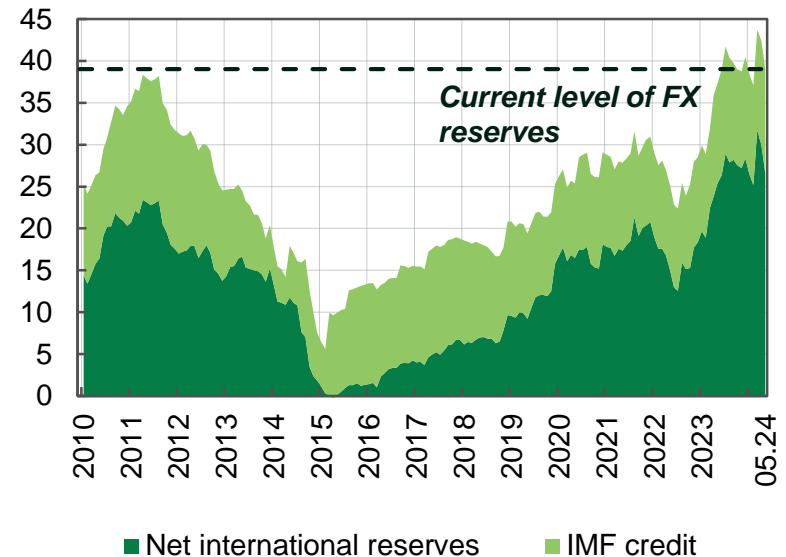
Reserves remained at comfortable levels despite the expected decrease in the volume of international financial assistance

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.

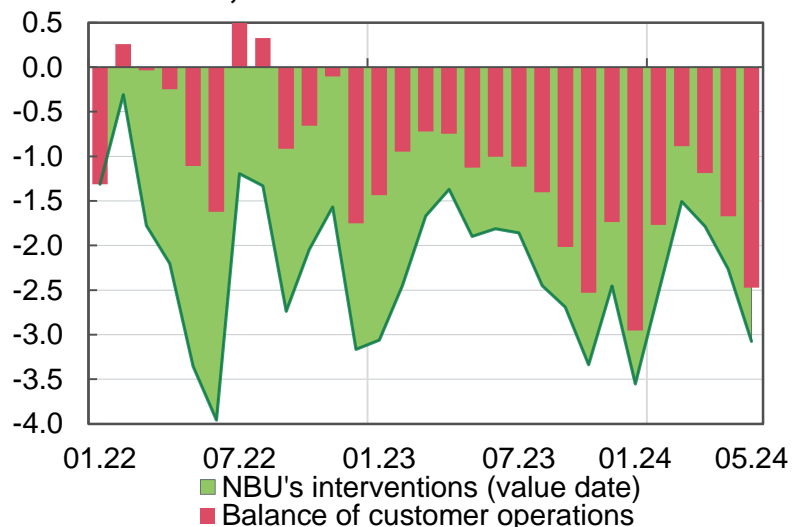
- Since April, the volumes of international financial assistance expectedly declined. As a result, the inflows of capital to the public sector significantly decreased in April. Additionally, there was an increase in capital outflows from the private sector due to the reduction in outstanding trade credit to non-residents
- As a consequence, gross reserves decreased during April-May but remained at comfortable levels: USD 42.4 bn at the end of April and USD 39 bn at the end of May



Ukraine: Monetary sector

The hryvnia ER weakened under the influence of market conditions, but the situation in the FX market was under control

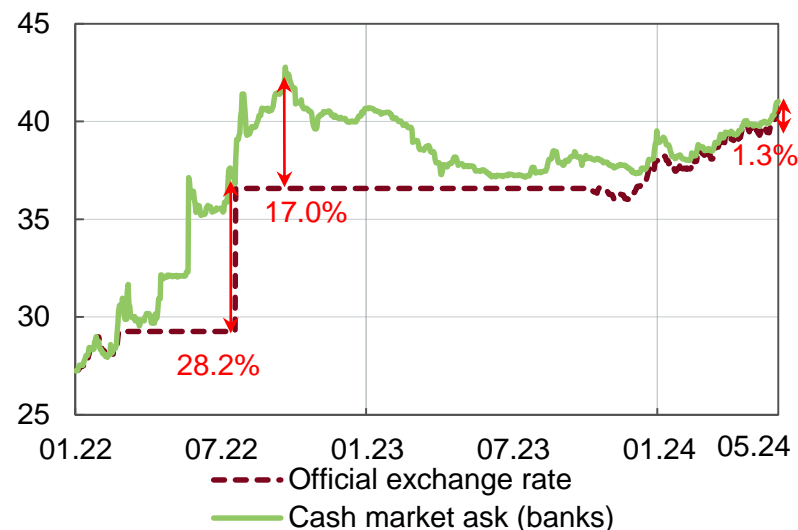
Bank clients' FX transactions* and NBU interventions, USD bn



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

Source: NBU.

Hryvnia exchange rates, UAH per USD

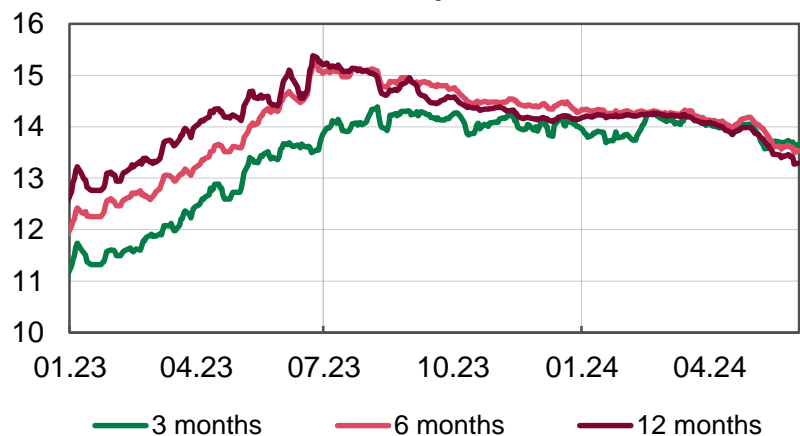


Source: NBU.

- The increase in the FX demand led to a weakening of the hryvnia exchange rate in May. This was owing to:
 - intensification of budget expenditures
 - decrease in the FX inflows from the agricultural exports amid the exhaustion of last year's harvest
 - significant situational surges in demand for foreign currency, especially during the last week of the month
 - further [liberalization](#) of the FX restrictions
- This was also reflected in the increase in the spread between the cash and official exchange rates, but it continued to be within acceptable limits, not exceeding 1.4%
- Under such conditions, the NBU significantly increased net FX sales (to USD 3.1 bn)

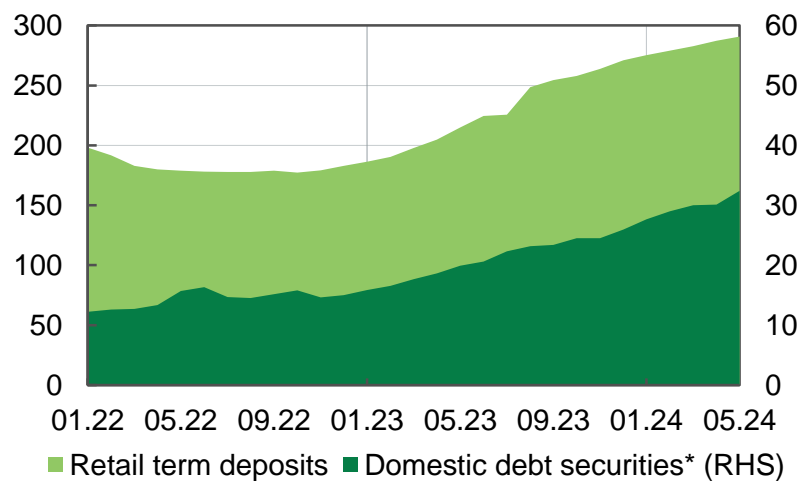
The yields of hryvnia instruments in real terms remain positive, despite more active reduction of rates

Ukrainian Index of Retail Deposit Rates*, %



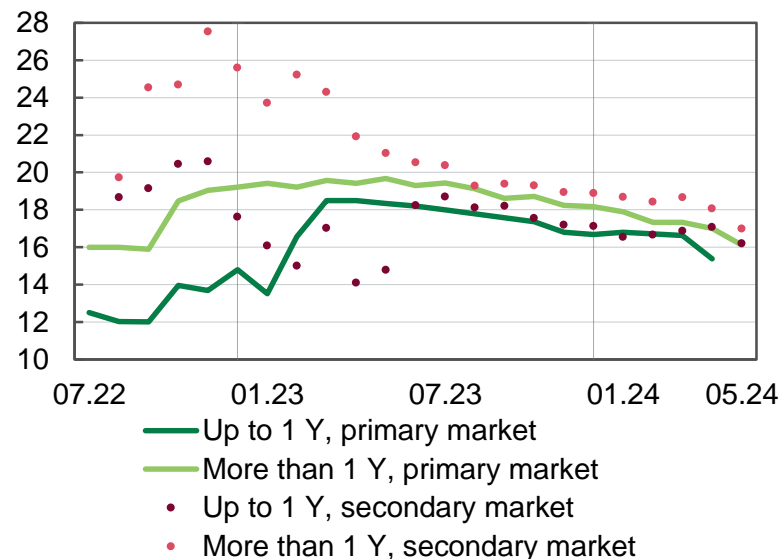
* 5-day moving average. Source: Thomson Reuters.

Stock of hryvnia domestic debt securities held by individuals and hryvnia retail term deposits, UAH bn



* At outstanding nominal value. Source: NBU.

Yields on hryvnia domestic debt securities, % per annum



Source: NBU calculations.

- Despite the nominal decrease in interest rates, the yields on hryvnia instruments remain positive in real terms
- The demand for hryvnia debt securities increased in May, which enabled the government to reduce the cost of primary placements of domestic debt securities
- Hryvnia retail term deposits and domestic debt securities held by individuals continued to increase