



National Bank  
of Ukraine

# Monthly Macroeconomic and Monetary Review

July 2024

Monetary Policy and Economic Analysis  
Department



# Summary

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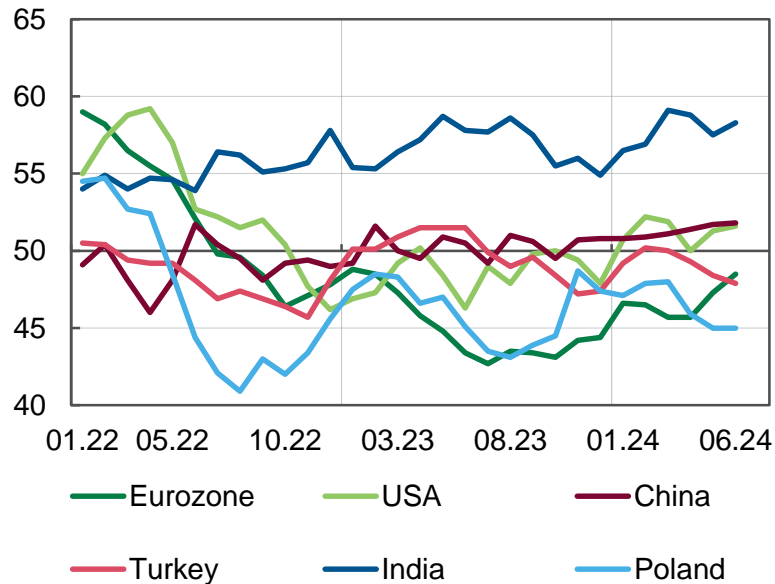
- **Economic recovery of Ukraine's MTPs slowed down, inflationary pressures remained persistent.** Global oil prices resumed their growth, while natural gas prices fluctuated in a narrow range at higher levels than in previous months. Expectations for rate cuts by major CBs increased slightly, while EM CBs took a wait-and-see approach
- **In May, consumer inflation in Ukraine accelerated slightly,** to 3.3% yoy from 3.2% yoy in April. Underlying inflation pressures remained persistent amid rising business expenses on electricity and labor, and the weakening of the hryvnia exchange rate. Meanwhile, raw food prices continued to decline, and inflation expectations remained at relatively stable levels. According to the NBU's estimates, consumer price growth accelerated moderately in June
- In June, a significant shortage of electricity led to a **deterioration in business and consumer sentiment and a weakening of activity in a number of industries.** At the same time, **agriculture grew at a high rate** thanks to faster harvesting than last year, as did transportation volumes in ports given stable operation of the sea corridor
- **The labor market recovery has also slowed down:** in June, the number of vacancies remained unchanged, and the number of employees decreased compared to May. Outbound migration picked up, likely due to problems with the electricity supply. Labor shortages supported further wage growth
- In May, the **trade deficit in goods continued to narrow** amidst stable operation of the sea corridor and a seasonal reduction in demand by agro producers. **However, the current account deficit widened** due to intensification of imports of certain services and dividend repatriation against the backdrop of the easing of FX restrictions. Alongside reduced volumes of international financial assistance, this led to a decrease in gross reserves, which nonetheless remained at a comfortable level
- **The situation in the FX market remained under control.** With the NBU committed to the principles of managed flexibility, the hryvnia exchange rate moved under the influence of market factors both in both directions, but slightly depreciated on average during the month
- Despite the nominal reduction in deposit rates, **the yields on hryvnia instruments remained positive in real terms**



# External Environment

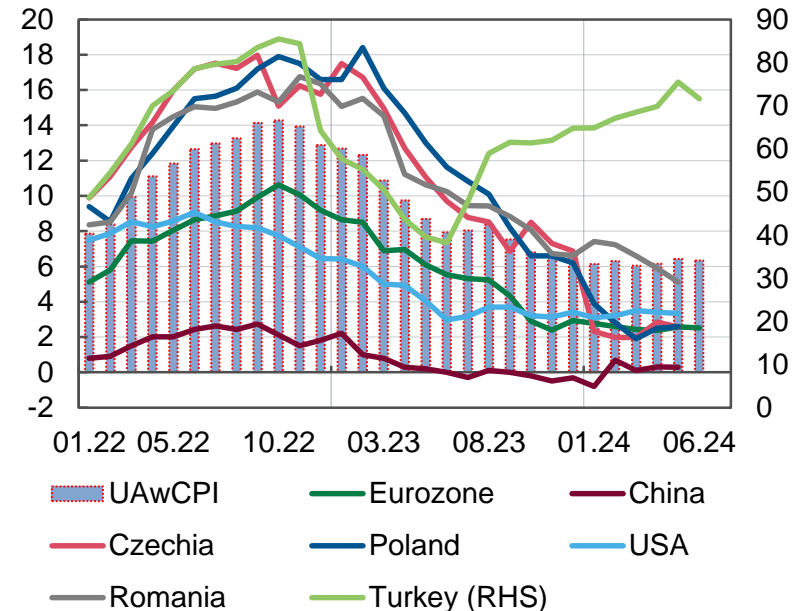
# Economic recovery of Ukraine's MTPs slowed down, while inflationary pressures remained persistent

Manufacturing PMI of selected countries



Source: S&P Global.

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

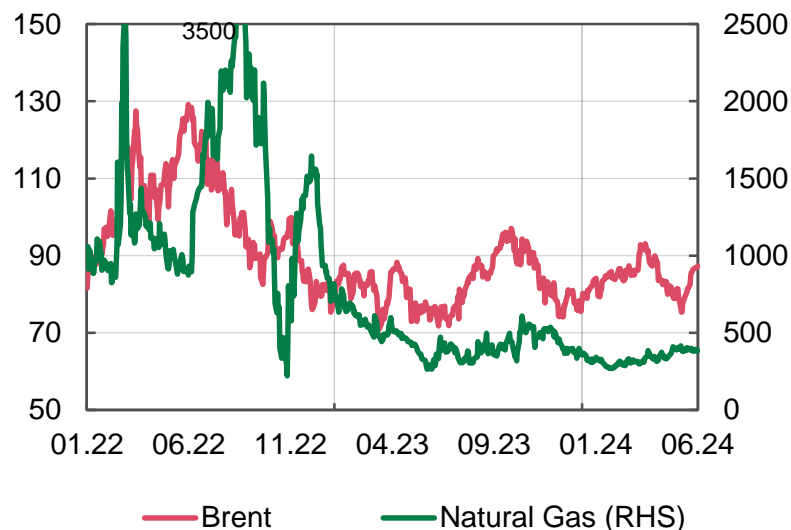


Source: National statistical offices, NBU staff estimates.

- Leading indicators pointed to a moderate recovery in most of Ukraine's MTP countries, supported by growth in new orders and employment
- At the same time, inventories declined moderately, and international trade flows narrowed again, in part due to lengthened delivery times as a result of the deteriorating situation in the Red Sea and the Panama Canal
- As a result, production costs grew at the fastest pace in a year, leading to higher selling prices
- This, in turn, maintained persistent inflationary pressures in Ukraine's MTP countries (UAWCPI)

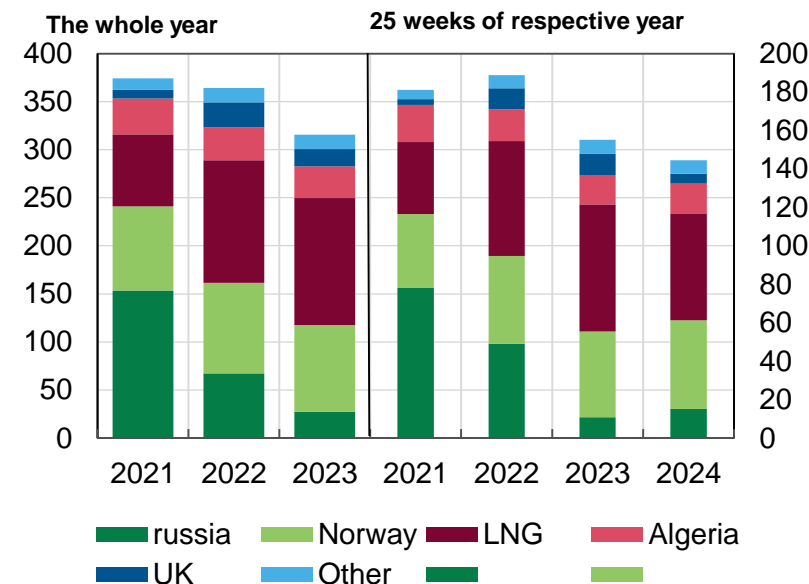
# Global oil prices resumed their growth, while natural gas prices fluctuated in a narrow range

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

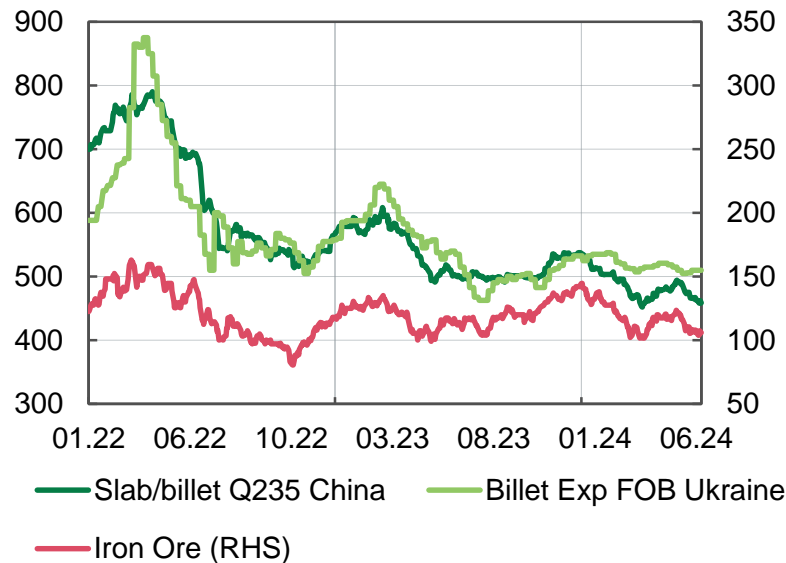


Source: Bruegel (russia, Norway, Algeria – pipelines).

- **Global oil prices rose** under pressure from rising geopolitical tensions and seasonal growth in demand for refined products. An additional factor was the extension of OPEC+ restrictions. Meanwhile, steady production volumes in the US, Libya, Iran, Angola, and Venezuela restrained a more rapid rise in prices
- **Gas prices in Europe fluctuated within a relatively narrow range at higher levels than in previous months.** Increased demand for LNG in Europe and Asia due to hot weather, as well as in Australia due to colder weather, put upward pressure on prices. At the same time, still comfortable levels of gas reserves in Europe and the gradual resumption of production by Norway restrained price growth

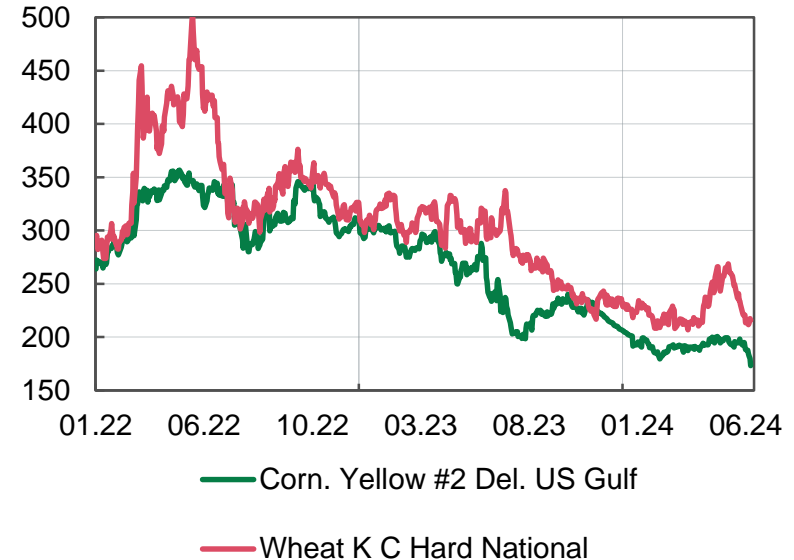
# Global prices for commodities prevailing in Ukraine's exports declined under the influence of ample supply

## Global steel and iron ore prices, USD/MT



Source: Refinitiv, Delphica.

## Global grain prices, USD/MT

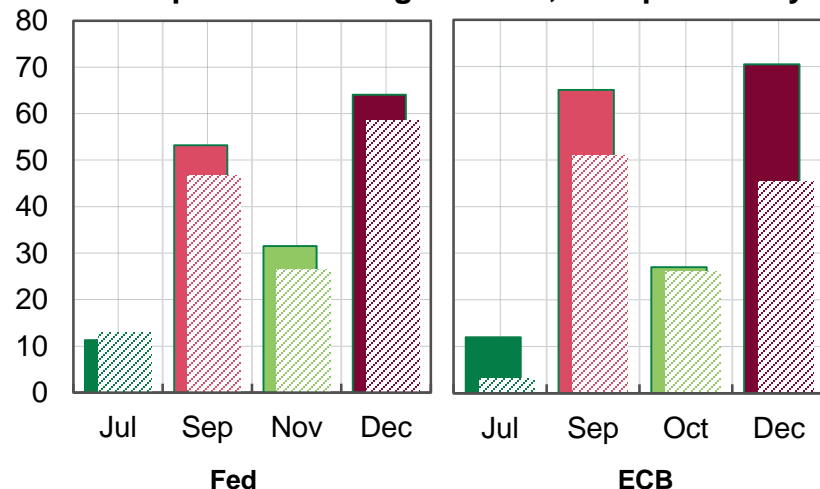


Source: Refinitiv.

- **Steel and iron ore prices declined.** Global demand remained weak as a result of the summer lull in the Middle East, North Africa, and parts of Europe, as well as the monsoon season in Southeast Asia. By contrast, robust global supply, primarily from China, created an oversupply of these commodities on the market and put downward pressure on prices
- **Wheat and corn prices also declined.** Significant global supply in excess met current demand as the new US crop and the second Brazilian crop gradually entered the market, and weather conditions improved, especially in the Black Sea region, which increased competition between exporters

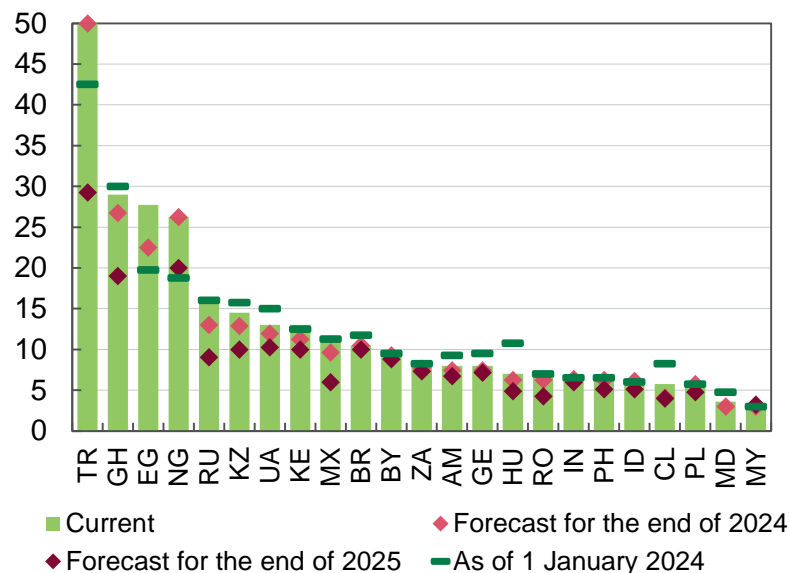
# Expectations for rate cuts by major CBs increased slightly, while EM CBs took a wait-and-see approach

OIS\* market expectations for the Fed and ECB rate cuts at respective meetings in 2024, % of probability



\* Pricing derived from overnight index swaps linked to the meeting dates. Bars with the solid fill denote bets as of the end of June, while those with the pattern fill are bets as of late May. Source: Bloomberg World Interest Rate Probability.

Key policy rates in selected EM countries, %



Source: official web pages of central banks, Focus Economics, Oxford Economics, as of 30.06.2024.

- **The Bank of Canada** became the first CB in the G7 to cut rates. **The ECB** followed Canada's lead and lowered its interest rates, while signaling further gradual reductions. Meanwhile, **the Fed** maintained the federal funds target range and will continue reducing the balance sheet. The FOMC members now forecast one rate cut by the end of 2024. At the same time, **the Bank of Japan**, despite currently keeping rates unchanged, signaled the possibility of a rate hike soon amid heightened inflationary risks
- Financial markets more and more expect the Fed and ECB rate cuts in September (53% and 65% probabilities, respectively). The chance for another Fed rate cut by the end of 2024 is 60%, and that for one more ECB cut is around 75%

**EM** central banks postpone or slow down the pace of monetary policy easing against the backdrop of the Fed keeping rates high as well as amid elevated inflation expectations

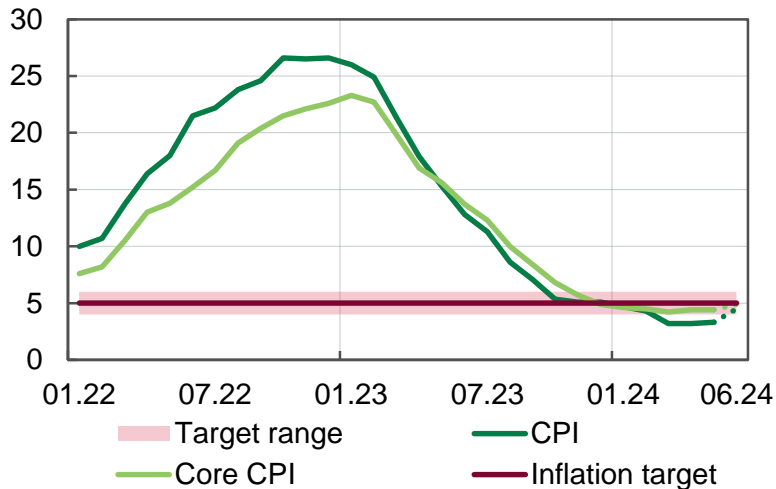


# Ukraine: Inflation



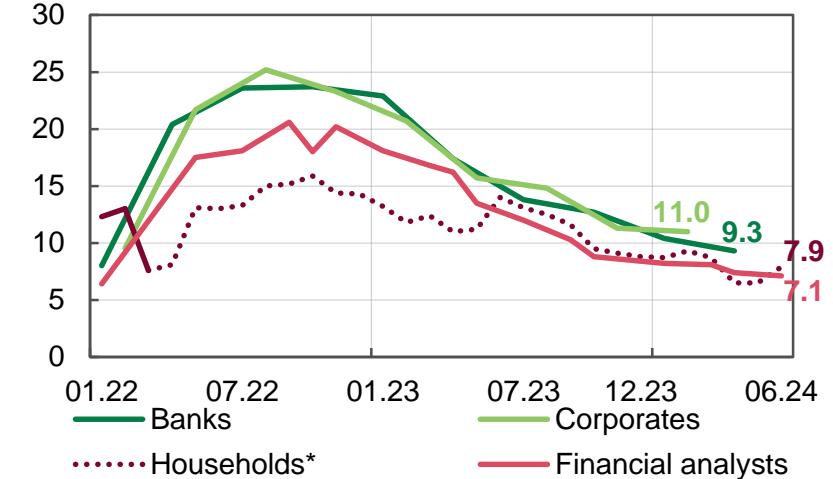
# Consumer inflation in May accelerated moderately, while core inflation remained flat

**Inflation\* and inflation target, % yoy**



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

**Inflation expectations for the next 12 months, %**

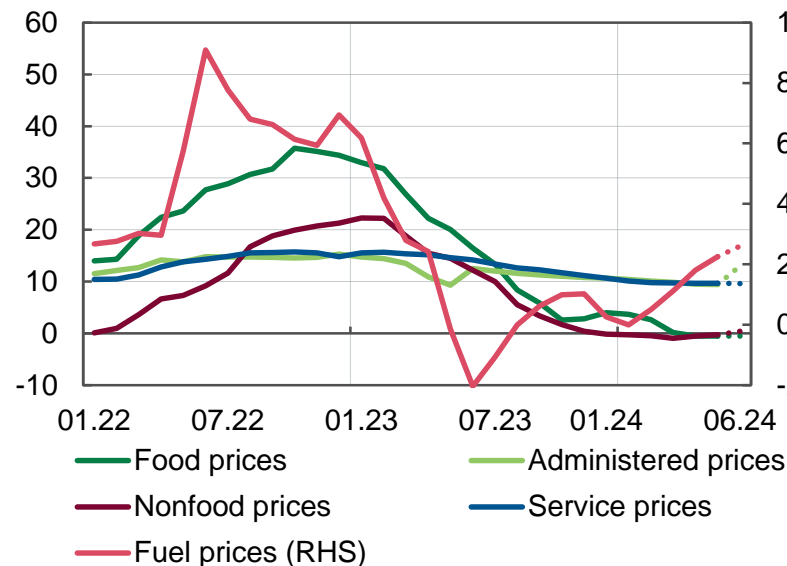


\* The dotted line indicates a change in the method of survey for a telephone interview.  
Source: NBU, Info Sapiens.

- The actual consumer inflation in May accelerated, but 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 a steeper decrease in prices for raw food products primarily amid their significant supply and the effects of last year's ample harvests
- Core inflation stood at 4.4% yoy in May, the same level as in April. Such dynamics were in line with the trajectory of the NBU's April forecast. Underlying inflationary pressures were supported by further increases in businesses' expenses, including on labor and electricity, as well as pass-through effects from exchange rate depreciation. Meanwhile, second-round effects from lower prices of raw food products and relative resilience of inflation expectations were the restraining factors
- According to the NBU's estimates, consumer inflation moderately increased in June too, in particular due to the gradual waning of effects from last year's harvests and pass-through effects from hryvnia depreciation

# Food and nonfood prices continued to decline, although the decline in prices for the latter slowed

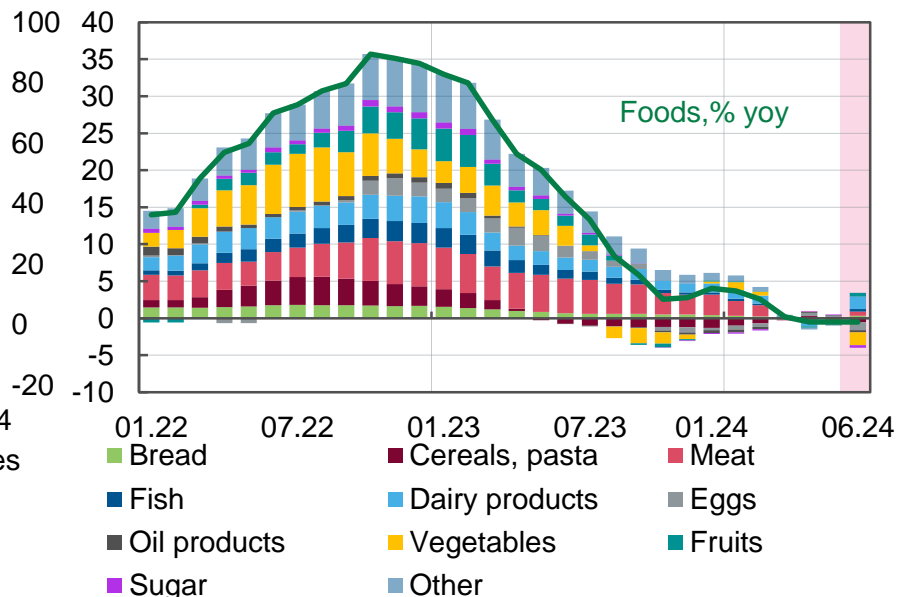
Selected CPI components\*, % yoy



\* Data for June reflects nowcast.

Source: SSSU, NBU staff estimates.

Contributions to the annual change in food prices\*, pp



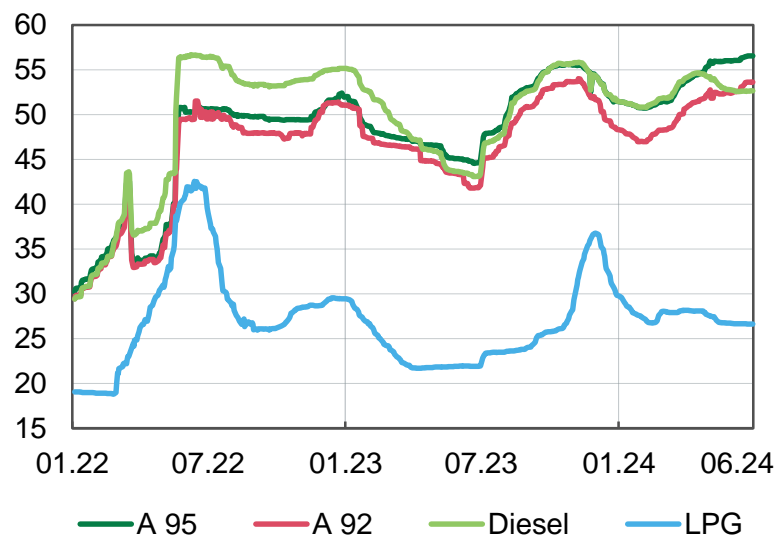
\* Data for June reflects nowcast.

Source: SSSU, NBU staff estimates.

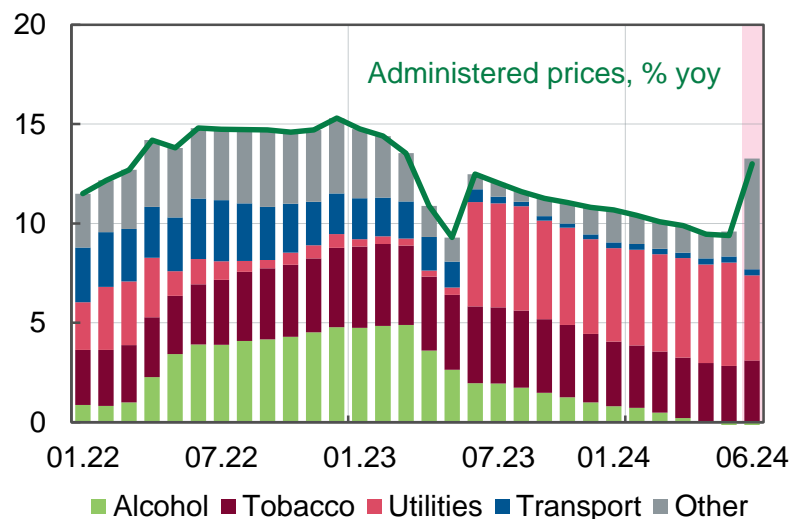
- Food prices continued to decline, primarily for raw foods due to their increased supply amid warm weather conditions at the beginning of this year, as well as the effects from the last year's ample harvests and the reorientation of some producers towards the domestic market
- In particular, prices of the borshch set and the vegetables of the new harvest decreased. Further recovery in animal husbandry supported the decline in egg prices, and restrained growth in prices of meat and milk. By contrast, prices of potatoes and beetroot remained high due to the limited supply of quality products, as did prices for some fruits
- Nonfood prices decreased, albeit more slowly, which was likely due to the exchange rate factor. Service prices remained unchanged from April. On the one hand, the pressure from expenses on food raw materials decreased. On the other hand, the pressure from the labor costs persisted

# Administered inflation slowed down, while fuel price growth accelerated

Fuel prices, UAH / L



Contributions to the annual change in administered prices, pp



\* Data for June reflects nowcast.

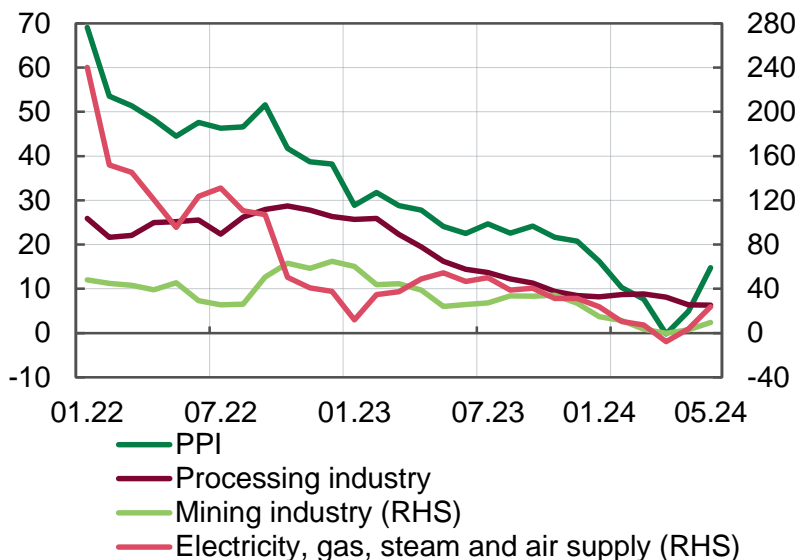
Source: SSSU, NBU staff estimates.

Source: minfin.com.ua.

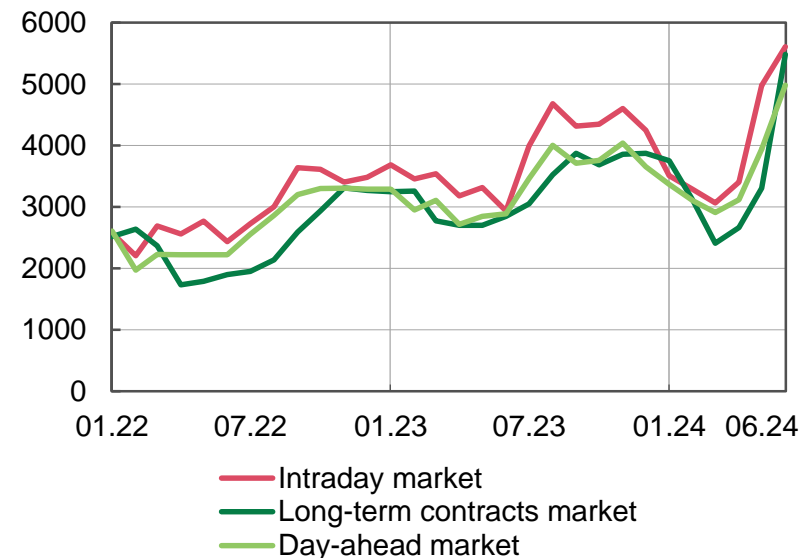
- Fuel price growth accelerated in May, reflecting the drawdown of stocks imported at a lower price, the weakening of the hryvnia exchange rate, and the rise in crude oil prices on global markets
- The decline in prices for alcoholic beverages resumed due to lower pressure from business expenses on raw materials and administrative costs, as well as due to competition from shadow market supply. On the other hand, prices for tobacco products grew slightly faster
- The moratorium on raising utility prices for households continued to restrain the increase in administered prices
- According to the NBU's estimates, the administered inflation is expected to increase starting June given the increase of electricity tariffs for the households

# Producer price growth accelerated in May, primarily driven by higher energy prices

PPI and its components, % yoy



Electricity prices for non-household consumers, UAH/MWh



Source: SSSU.

Source: Ukrainian Energy Exchange, Market operator.

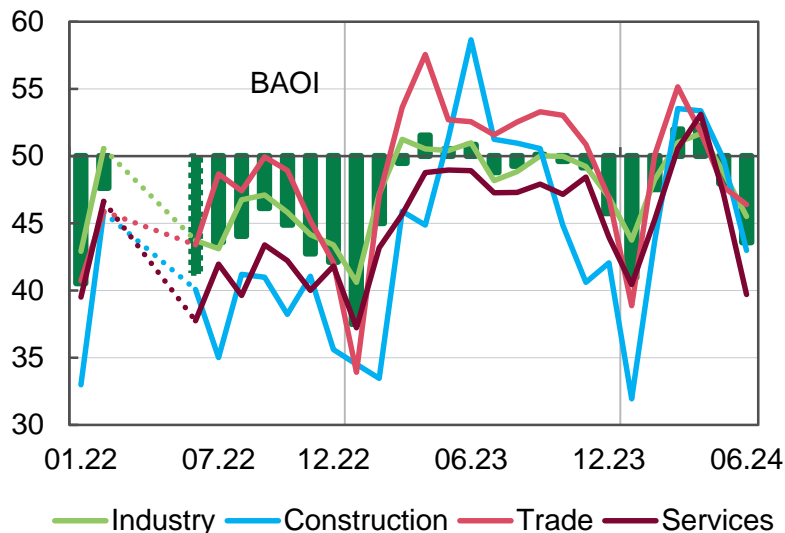
- PPI growth accelerated rapidly, mainly due to the rise in prices in the energy sector. The significant increase in the price of electricity on the day-ahead market and the intraday market is attributed to the energy deficit due to the loss of a number of generating capacities as a result of Russian shelling
- Prices in the mining industry also grew at a higher rate. In particular, due to the increase in the price of crude oil in the global market, as well as natural gas in Europe, price growth in the crude oil and natural gas extraction has accelerated significantly
- Price growth in food processing accelerated too, primarily for dairy products amid the [intensification of their exports](#) and the [increased price of raw materials in previous periods](#). Also, against the backdrop of the expansion of the export geography, the drop in prices in sugar production slowed down somewhat



# **Ukraine: Economic activity**

# In June, economic activity weakened due to a difficult situation in the energy sector

NBU's business activity outlook index, p

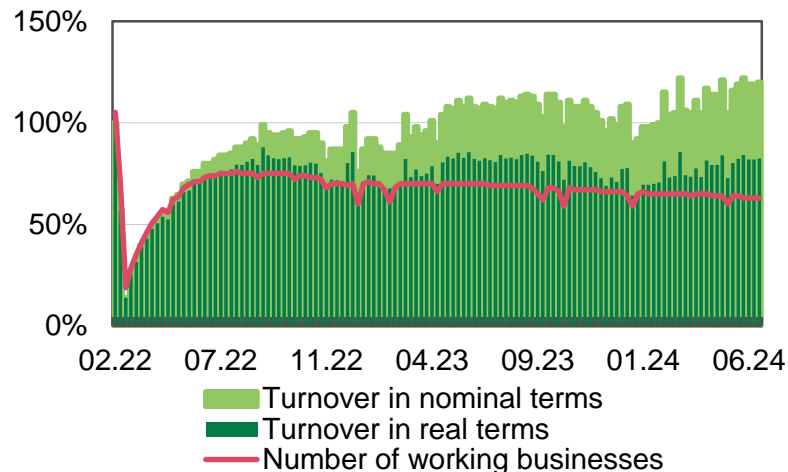


A level above 50 indicates mainly positive expectations. Survey was not conducted from March to May 2022.

Source: NBU.

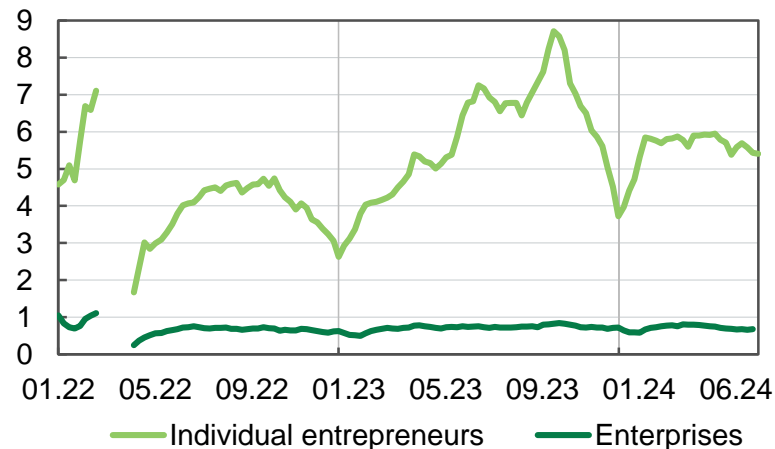
- Against the backdrop of significant electricity shortages and prolonged power outages, as well as a lack of workers, business expectations have worsened. This, along with other high-frequency indicators, pointed to a weakening of activity in a number of industries
- These factors had a negative impact on the manufacturing of foods, in particular the production of bread, and together with repair works, held back the recovery of metallurgy

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



Source: opendatabot.ua.

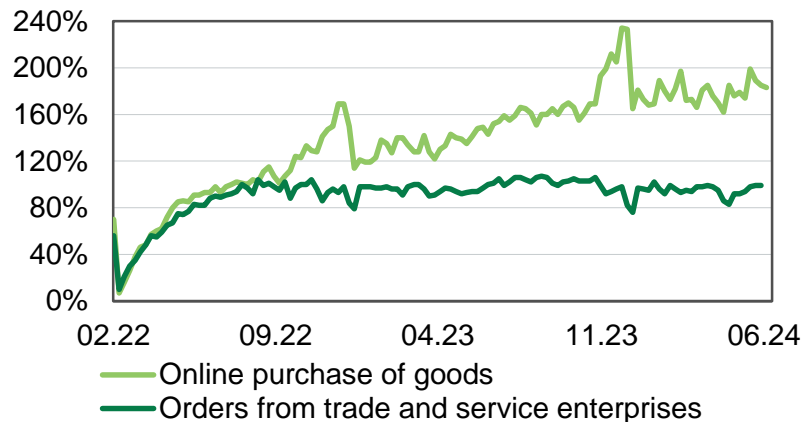
New business registrations (4-week moving average), thousands



Source: opendatabot.ua.

# Consumer sentiment also worsened substantially, while the demand for autonomous power units increased significantly

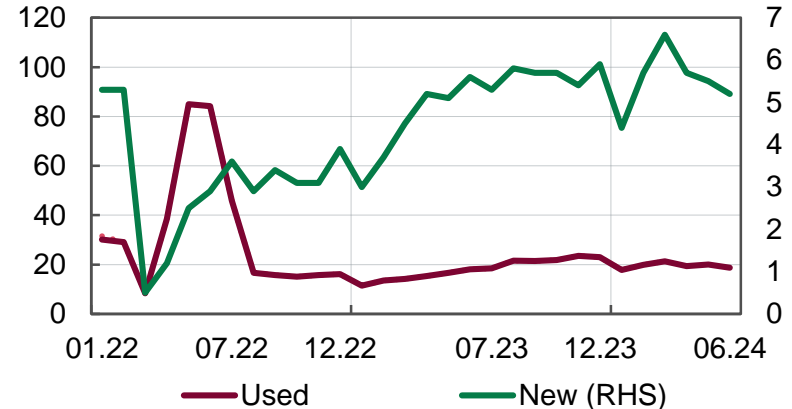
The number of online purchases of goods, % to pre-war level



Source: Opendatabot (Khoroshop and RemOnline services).

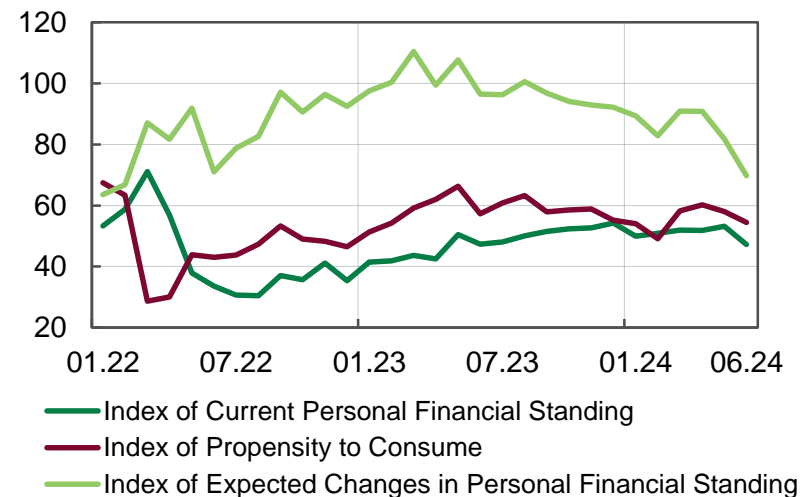
- Due to power outages, the demand for autonomous power units and electronics [increased sharply](#) in June. At the same time, [restaurant visits and takeaways tended to increase](#) in large cities during the outages. This somewhat supported retail trade and the services sector
- Although large networks are mostly [equipped with generators](#), grocery networks have [started to change or reduce their product range](#) due to power outages
- For the first time since the beginning of 2023, [sales of new passenger cars](#) decreased in annual terms (by 8%)

The first registration of passenger cars, thousand units



Source: Ukravtoprom.

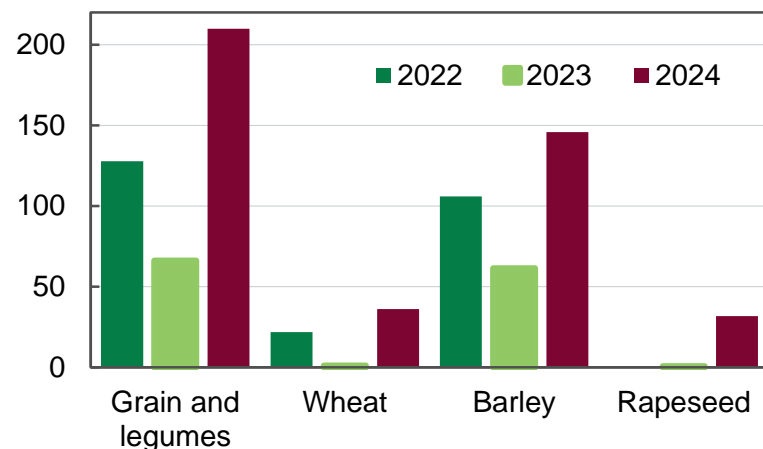
Components of the consumer sentiment index, p



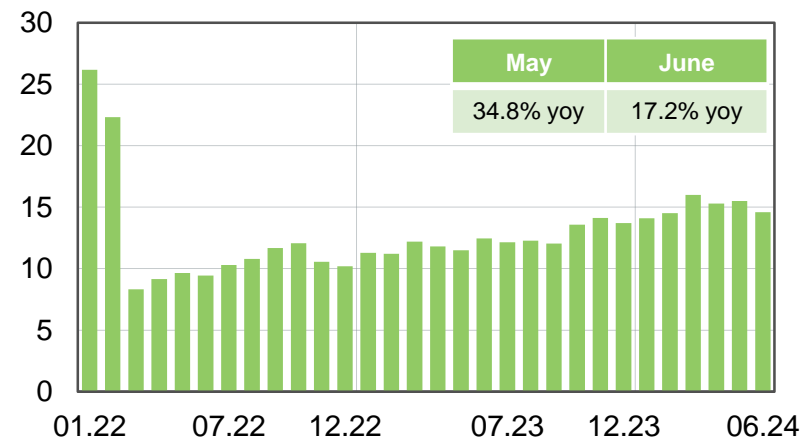
From March 2023, the survey method was changed from face-to-face to telephone interviews. Source: Infosapiens.

# At the same time, economic activity was supported by faster harvesting than last year and stable operation of the sea corridor

Areas of harvested agricultural crops in June, thousand hectares



Rail freight transportation, million tons



Source: MinAgro.

Source: SSSU, Rail.insider, UZ.

- In June, the [harvesting began](#) in most regions and the works proceeded faster than last year; the supply of [greenhouse vegetables](#), [fruits](#) and [berries](#) increased seasonally
- Dairy processing [picked up in June thanks to increased exports](#), while meat processing stabilized. However, industry expectations worsened due to [raw material shortages](#) and [power outages](#)
- Due to a decrease in raw material stocks, oil production has [slowed down seasonally](#), but [expectations](#) remained positive due to good outlook for oilseed harvest and [own electricity generation capacity](#)
- The chemical industry revived against the backdrop of the [launch of capacities](#) after modernization and the [build-up of fertilizer stocks](#) by farmers in anticipation of a higher electricity deficit
- The increase in the production of [wagons](#), in particular for [medical](#) and [agricultural](#) purposes, supported mechanical engineering
- Transportation activity, traditionally for the off-season period in trade of agricultural products, [weakened compared to previous months](#), but the volume of railway transportation remained significantly higher than last year. Given stable operation of the sea corridor, the [volumes of transshipment in the ports](#) continued to grow at high rates

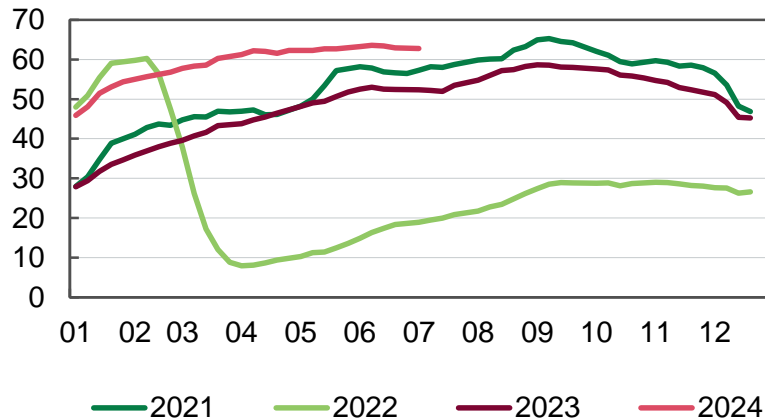




# **Ukraine:** Labor market

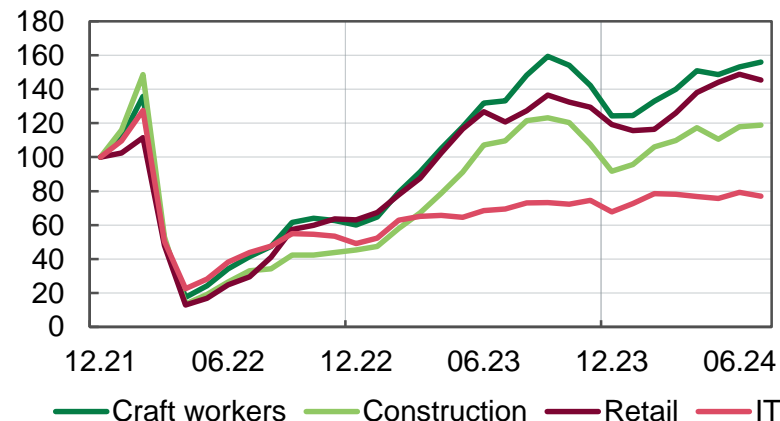
# The deterioration of economic activity caused by power outages led to a weakening of labor demand...

**Number of new work openings, four-week rolling average, thousands**



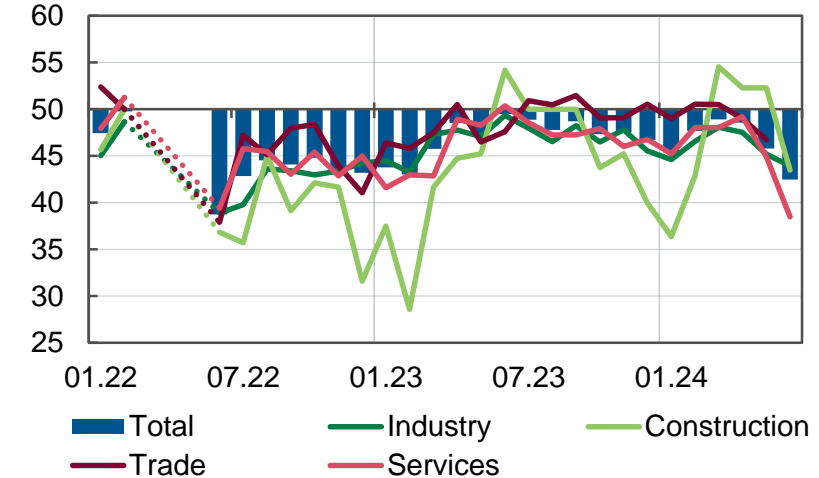
Source: work.ua, NBU staff calculations.

**New job openings in selected professions on average per month, index 12.2021 = 100**



Source: work.ua, NBU staff calculations.

**Diffusion indices of changes in the number of employees, p.**

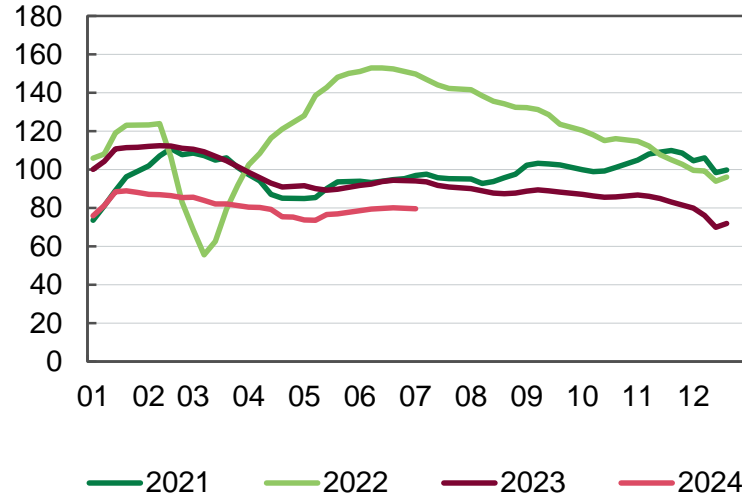


A level above 50 points indicates a predominance of positive assessments. The survey was not conducted from March to May 2022. Source: NBU.

- The number of new job openings at job search sites remained virtually unchanged in June (they usually increase seasonally, in particular due to the start of the harvest). In addition, business surveys indicated that the weakening of economic activity has led to a decrease in the number of employees compared to May
- However, some professions (such as security, construction, and craft workers) have seen a steady increase in the number of job offers

# ...but labor supply seasonally increased, despite some intensification of migration

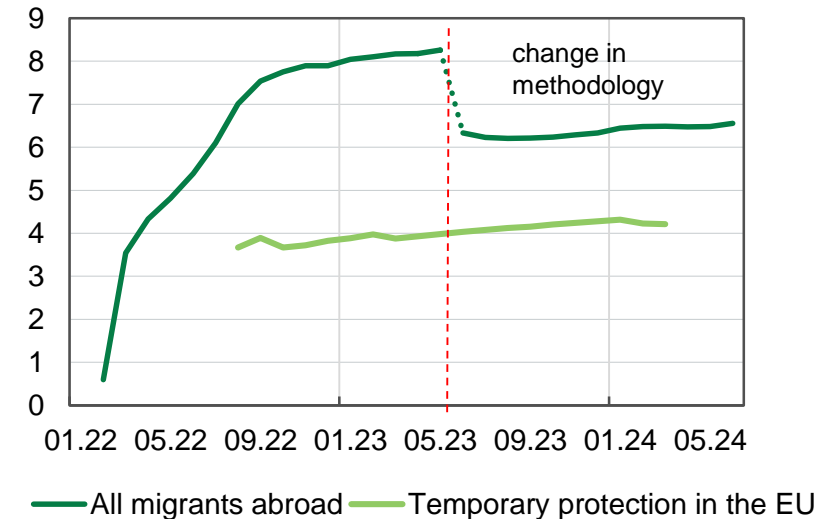
Number of new resumes, four-week rolling average, thousands



Source: work.ua, NBU staff calculations.

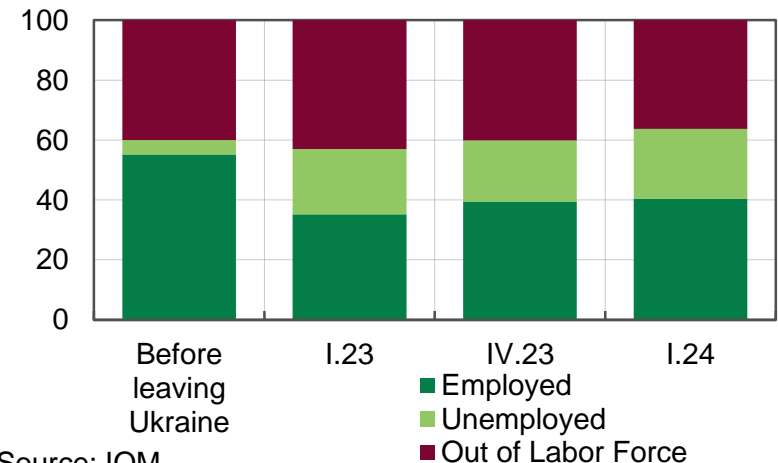
- The number of job seekers, as measured by the number of resumes, increased slightly, mainly reflecting the impact of seasonality
- At the same time, migration abroad intensified somewhat in May-June: the number of migrants increased to 6.6 million as of June 13, 2024, according to the UNHCR, which could be due to the power outages. Migrants' adaptation abroad is also growing, including their employment

Number of migrants, m persons



Source: UNHCR, Eurostat.

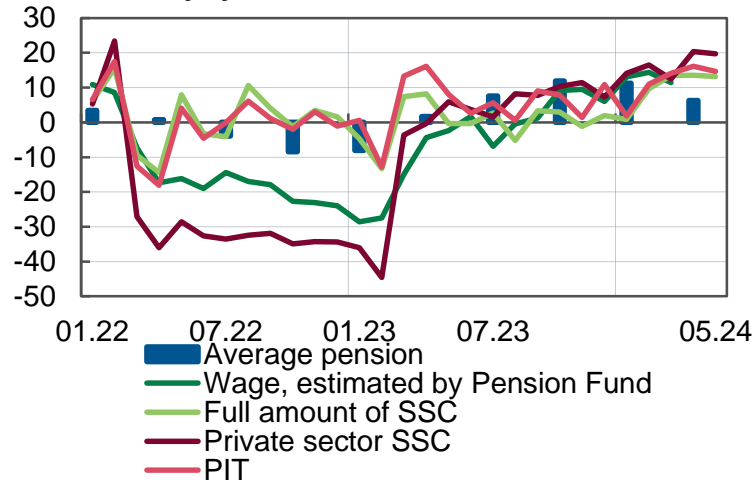
Migrants' employment status, % of responses



Source: IOM.

# Labor shortage remained significant and continued to put upward pressure on wages

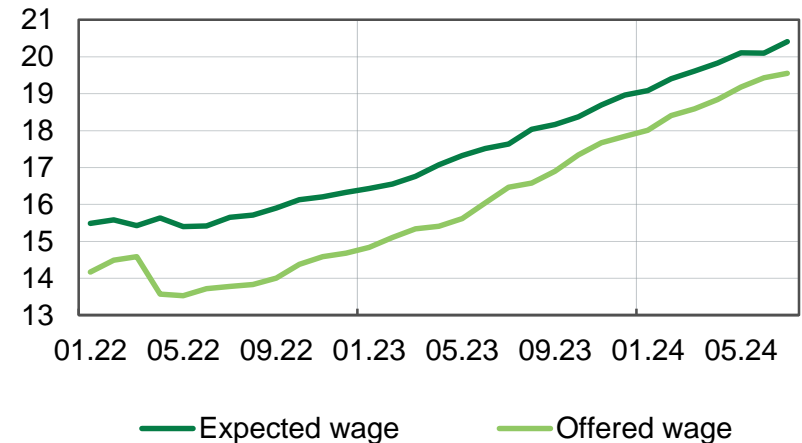
Indirect indicators for estimating real household income\*, % yoy



\* 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 staff calculations.

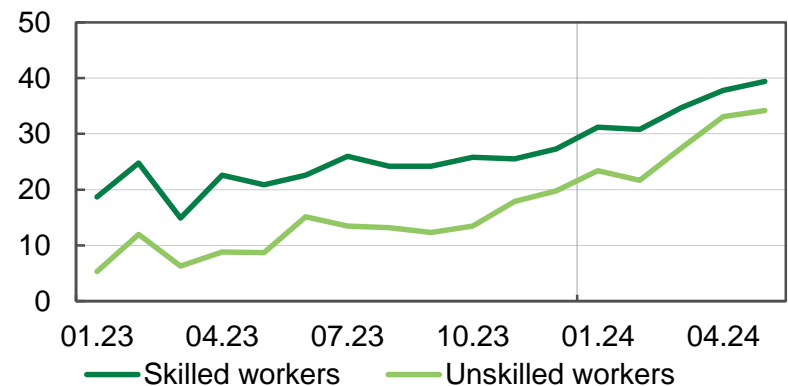
- Businesses continued to experience labor shortages, which put upward pressure on private sector wages
- Together with higher social welfare payments and low inflation, this contributed to further growth in real household incomes

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



Source: work.ua, NBU staff calculations.

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”.

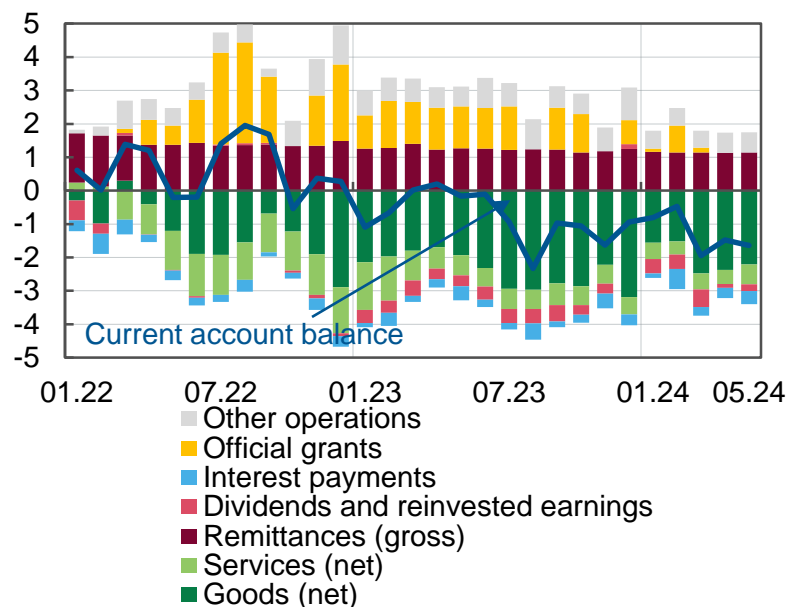
Source: IER.



# **Ukraine:** Balance of Payments

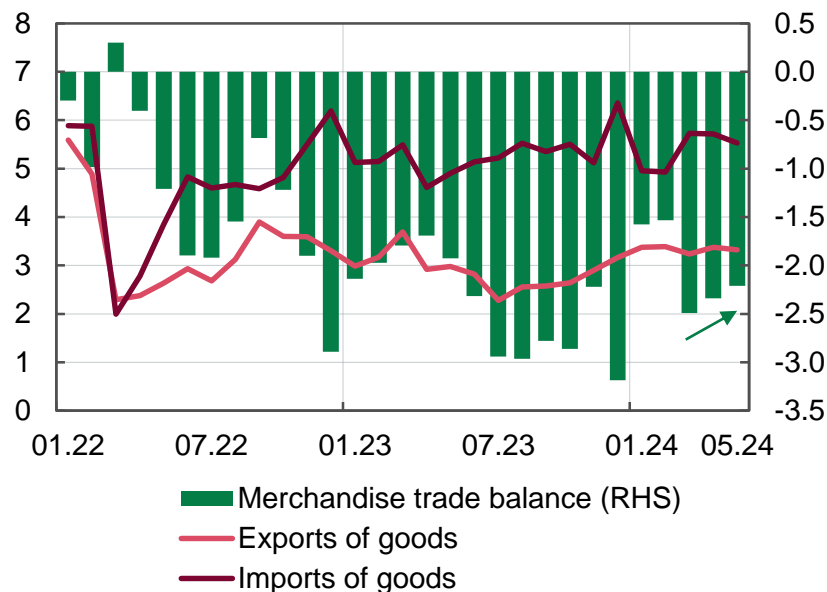
# In May, the trade deficit in goods narrowed; however, the CA deficit slightly widened due to the easing of FX restrictions

Current account balance, USD bn



Source: NBU staff calculations.

Merchandise trade balance, USD bn



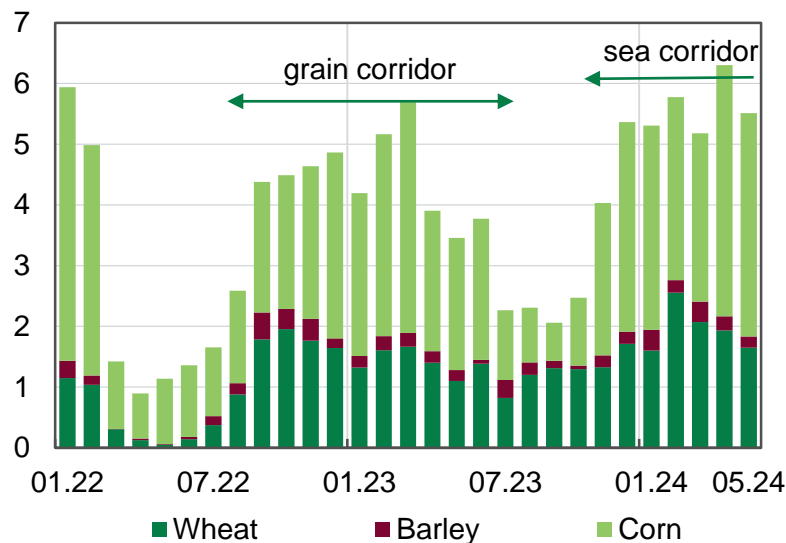
Source: NBU staff calculations.

- In May, the trade deficit in goods continued to narrow amid stable operation of the sea corridor and a seasonal reduction in demand from agro producers, which led to a decrease in imports. Already in June, the deficit is highly likely to expand due to electricity shortages and depletion of agricultural crop stocks
- Meanwhile, due to the lifting of FX restrictions for imports, there was an increase in the import of certain business services, air transport services and others
- Furthermore, as businesses were allowed to repatriate "new" dividends, the volumes of repatriated dividends increased slightly, causing the primary income account surplus to narrow

As a result, the current account deficit slightly widened compared to April

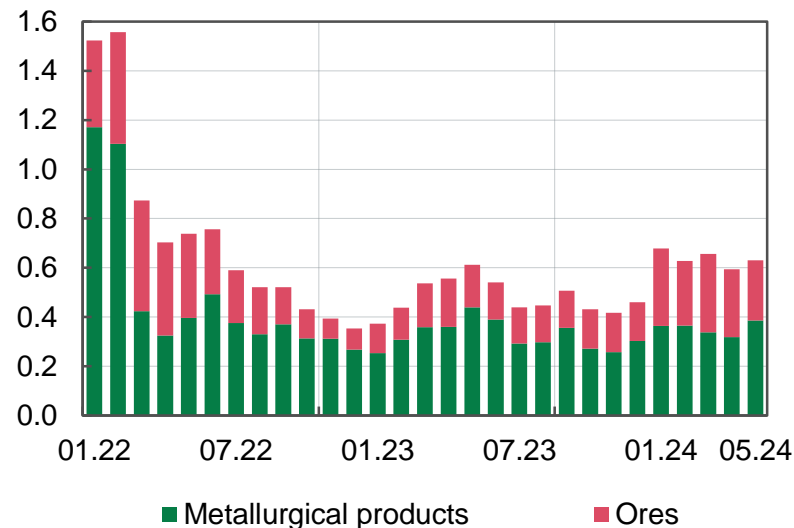
# Exports of goods stayed almost unchanged: a decrease in crop exports was offset by higher shipments of metallurgical products

Exports of grains, m t



Source: SCSU.

Exports of metallurgical products and ores, USD bn

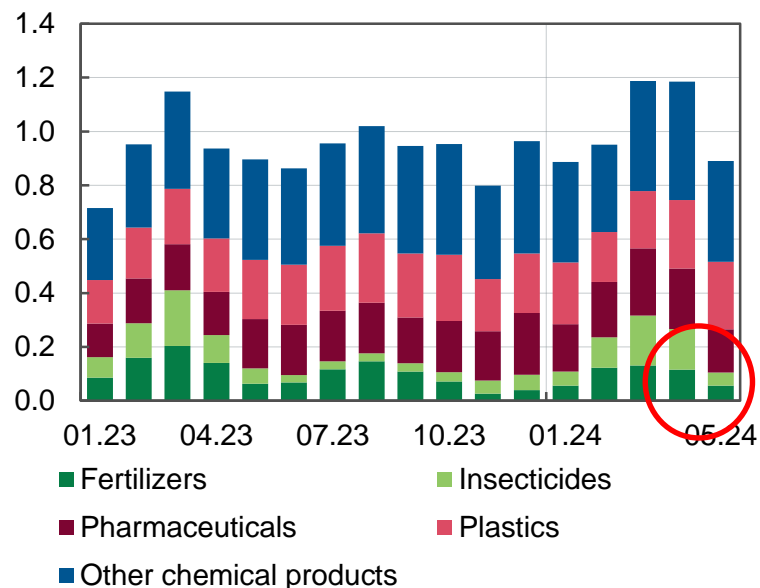


Source: NBU staff calculations

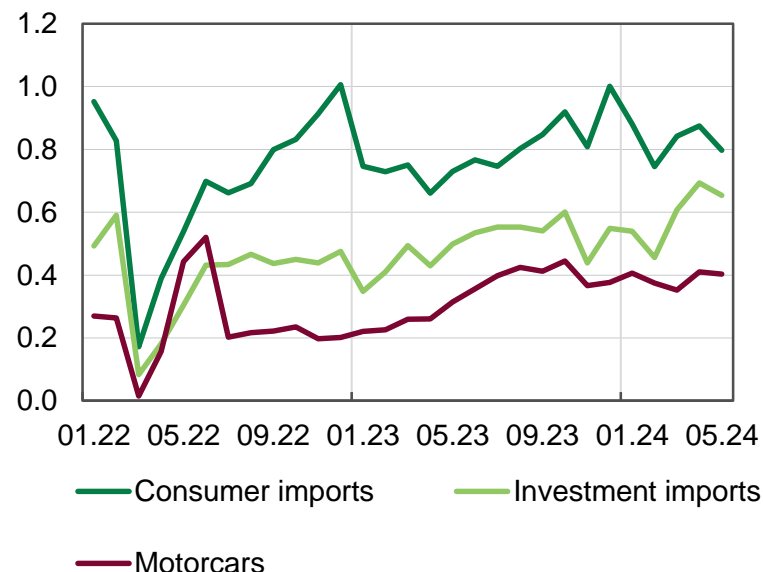
- The decrease in stocks of grains and oilseeds led to a reduction in shipments. This was only partially offset by the increase in global prices due to adverse weather conditions in major producing countries. According to preliminary estimates, the export of food products continued to decrease in June due to the depletion of stocks
- The gradual increase in metallurgical production, supported by stable operation of sea corridor, contributed to the growth in exports of metallurgical products. The electricity shortage did not have a decisive impact on exports in May due to existing stocks. However, by June, it affected shipments of metallurgical and machinery products. As a result, according to preliminary estimates, merchandise exports decreased in June

# Imports of goods contracted due to a seasonal reduction in demand from farmers and worsening consumer sentiment

Imports of chemical products, USD bn



Imports of goods by category\*, USD bn



\* Selected goods of consumer and investment goods

Source: SCSU, NBU staff calculations.

Sources: SCSU, NBU.

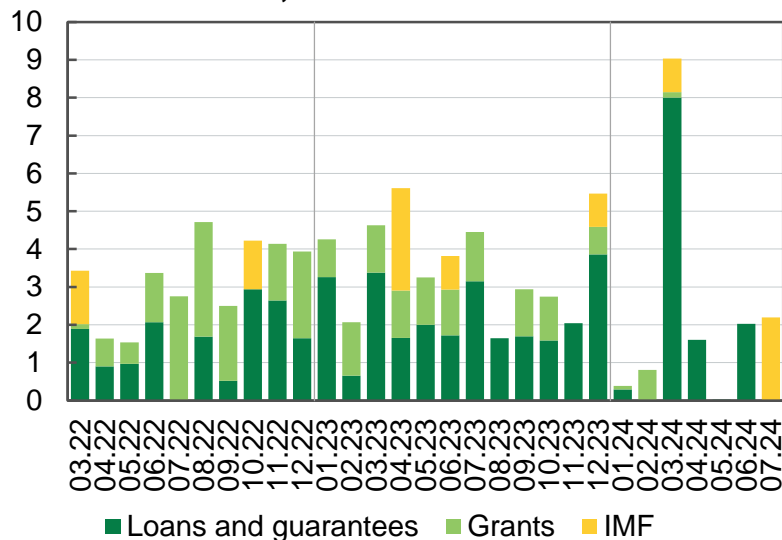
- In early May, Poland unblocked the border with Ukraine. As a result, freight traffic quickly increased. This led to an increase in imports of woods and specific machinery products. Additionally, an anticipated hike in excise taxes also contributed to an increase in imports of petroleum products
- However, seasonal reduction in demand from farmers for fertilizers, insecticides, and seed material was the main factor behind the decrease in imports compared to April
- Furthermore, worsening consumer sentiment was reflected in reduced purchases of certain consumer goods such as household appliances, food items, clothing, and footwear

According to preliminary estimates, imports in June remained at the level of May



# Reserves remained at a comfortable level despite the expected decrease of international financial aid and larger FX interventions

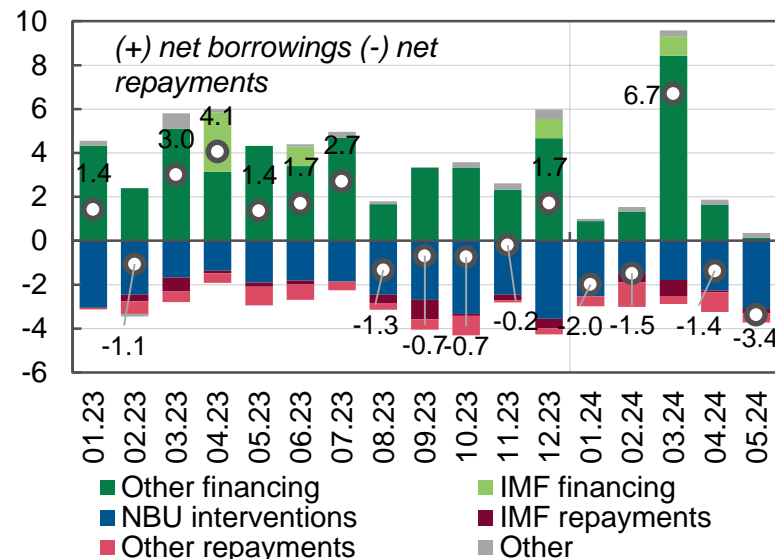
International financial assistance since the beginning of the full-scale war, USD bn\*



\* As of July 3, 2024.

Source: NBU, MFU, open sources data.

Change in international reserves, USD bn



Source: NBU.

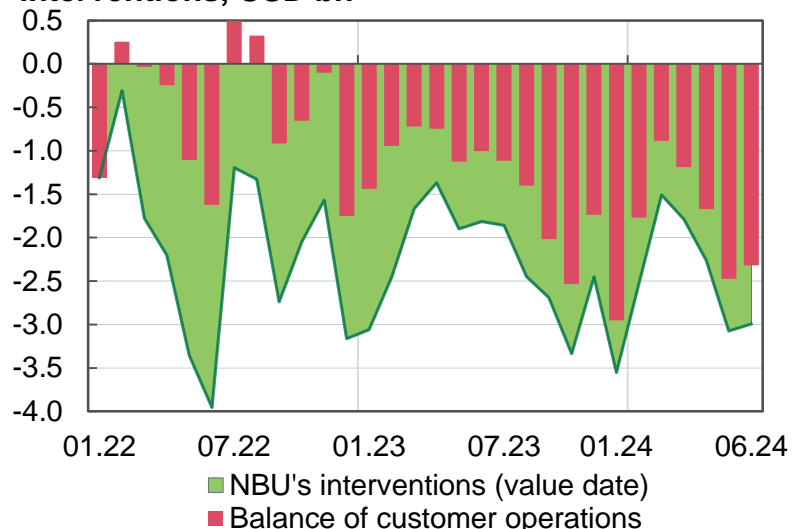
- Since April, international financial assistance volumes decreased as expected. As a result, in May, capital outflows were formed in the public sector under the financial account. Additionally, capital outflows from the private sector increased as trade credit liabilities to non-residents has decreased and population demand FX cash has increased
- As a result, gross international reserves decreased throughout May but remained at a comfortable level of USD 39 bn by the end of the month. Taking into account inflows from EU macro-financial assistance and the IMF tranche, reserves are expected to recover to around USD 40 bn by early July



# **Ukraine: Monetary sector**

# In June, the hryvnia exchange rate fluctuated in both directions, reflecting market conditions

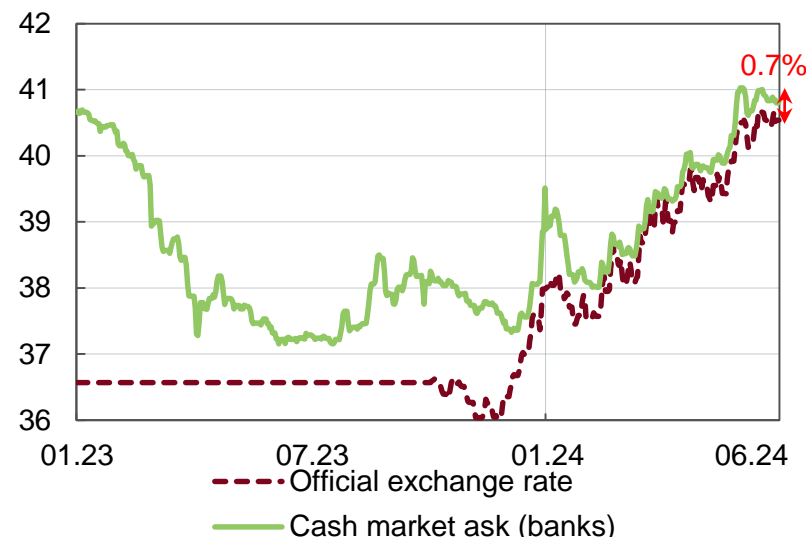
Bank clients' FX transactions\* and NBU interventions, USD bn



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

Source: NBU.

Hryvnia exchange rates, UAH per USD

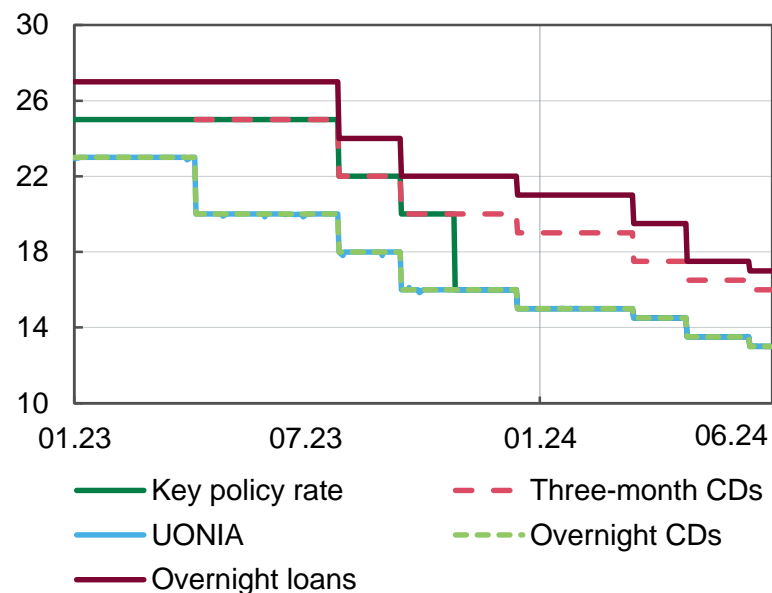


Source: NBU.

- In June, the hryvnia exchange rate fluctuated in both directions, reflecting changes in market conditions. However, moderate depreciation pressure prevailed during the month. The spread between the cash and official exchange rates was within acceptable limits, not exceeding 1.3%
- The main factors behind stronger FX demand during this period were:
  - high budget expenditures
  - intensification of fuel purchases by the fuel and energy complex companies in anticipation of a potential increase in excise taxes and electricity imports due to the loss of a number of generating capacities
  - carrying out of business operations permitted as part of May's FX liberalization
- Given persistent structural deficit of foreign currency, the NBU's interventions will continue to be the main balancing mechanism in the FX market – in June, net FX sales by the NBU amounted to USD 3.0 bn

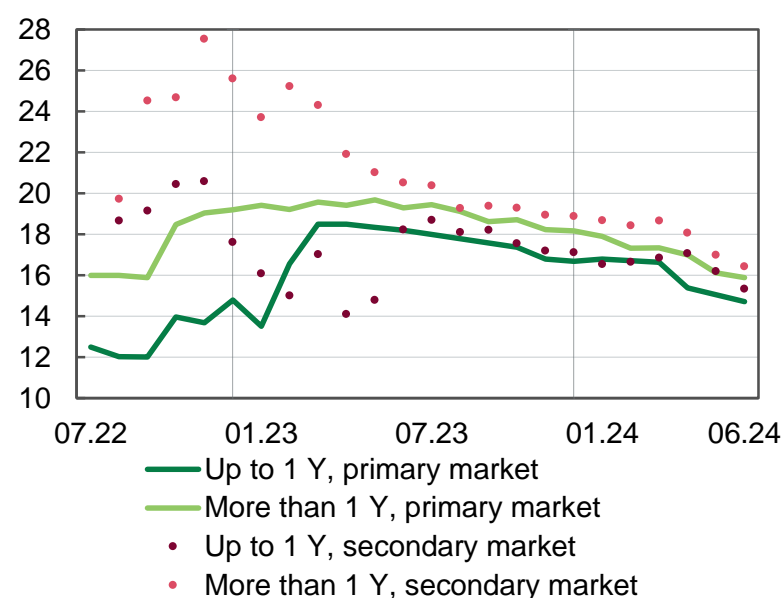
# The NBU continues the cycle of interest rate policy easing in order to support economic recovery

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



Source: NBU.

Yields on hryvnia domestic debt securities, % per annum



Source: NBU staff calculations.

- Given still moderate inflation indicators and taking into account the balance of risks, the NBU continued the cycle of interest rate policy easing in June
- Despite the nominal decrease in interest rates, the yields on hryvnia instruments remained positive in real terms
- The demand for hryvnia domestic debt securities remained solid, which enabled the government to rollover their significant volumes. However, their demand on the primary market has weakened by the end of June