National Bank of Ukraine

Macroeconomic and Monetary Review

December 2024

Monetary Policy and Economic Analysis Department

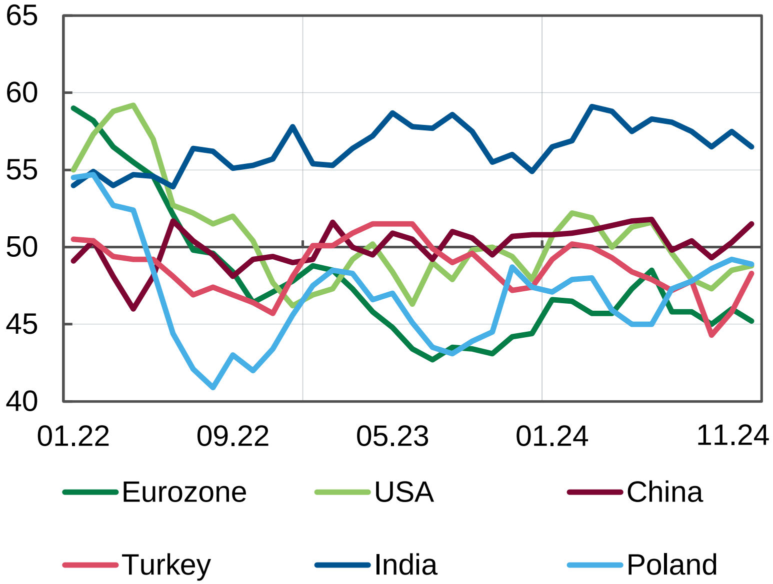
Summary

- **Economic growth of Ukraine's MTPs remains fragile, and inflationary pressures increased slightly.** Global oil prices fluctuated within a narrow range, while natural gas prices grew due to increased demand. Global prices for commodities prevailing in Ukraine's exports moved in different directions under the influence of specific factors. Leading central banks continue to gradually cut rates, but EM CBs are more cautious due to the expected inflation acceleration
- **In October, consumer inflation accelerated to 9.7% yoy. Underlying inflationary pressures also intensified (to 8.3% yoy)**. These trends were driven by a reduction in the supply of certain food products, further growth in production costs, and the effects of the exchange rate depreciation in previous periods. According to the NBU's estimates, inflation continued to accelerate in November
- **Business expectations and economic activity deteriorated in a number of sectors amid a difficult energy situation and shortages of personnel and agricultural raw materials**. At the same time, increased energy production and growing demand for fertilizers supported industry; increased demand for energy independence products and seasonal sales supported trade; and the arrival of the new harvest supported the transport sector.
- **The demand for labor weakened**, including due to the slowing economy. At the same time, **the number of resumes in annual term continued to increase**, making the search for employees somewhat easier. **Nevertheless, the shortage of staff remains significant, which is driving further wage growth**
- **In October-November, the state budget deficit (excluding grants in revenues) widened.** Budgetary needs were financed by international aid, along with domestic borrowing (the volume of gross placements of government debt securities in October-November was the highest since the beginning of the full-scale invasion)
- **The increase in exports of new crops and lower dividend repatriations contributed to the narrowing of the current account deficit in October, although it remained significant**. This, along with high demand for FX cash, led to a noticeable outflow of foreign currency from the private sector, which was partially financed by international aid inflows. As a result, reserves declined slightly to USD 36.6 bn. However, in November, reserves increased thanks to substantial official financing inflows
- **The situation in the FX market remained under control.** As the NBU adhered to the principles of managed flexibility, the hryvnia exchange rate moved in both directions under the influence of market conditions and slightly depreciated at the end of the month. Nominal interest rates on hryvnia instruments held largely unchanged, **while the yields in real terms remained positive**

External Environment

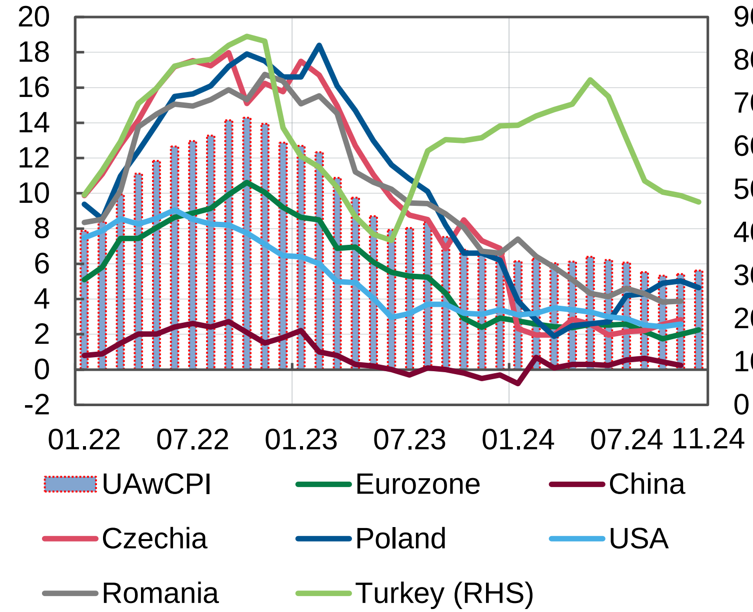
Economic growth of Ukraine's MTPs remains fragile, and inflationary pressures increased slightly

Manufacturing PMIs of selected countries



Source: S&P Global.

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

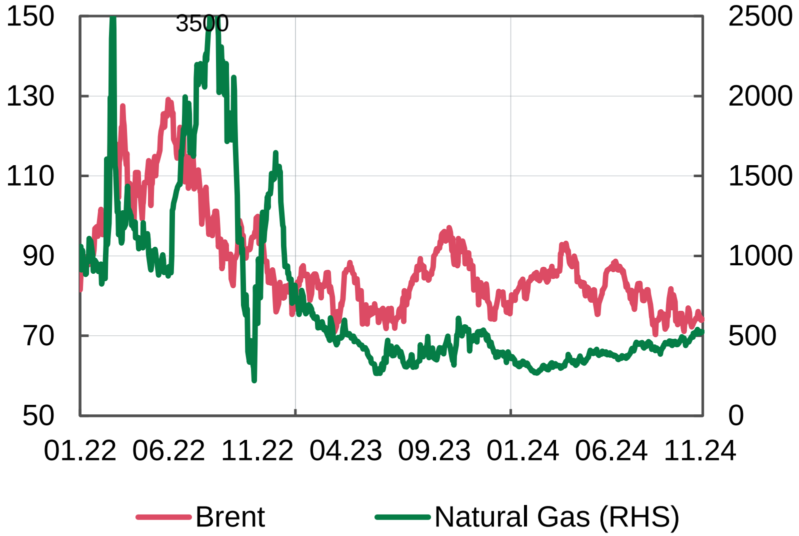


Source: national statistical offices, NBU staff estimates.

- Leading indicators point to further growth in the economies of Ukraine's MTPs, driven primarily by the services sector. However, economic growth remains fragile due to still sluggish manufacturing
- Divergences between individual countries are growing: the US is showing economic resilience, while European economies remain weak. Political uncertainty is still a significant drag on economic growth. At the same time, the gradual easing of monetary policy by leading central banks gives grounds for optimism regarding business activity
- Inflationary pressures from Ukraine's main trading partners (UAwCPI) increased slightly as prices for certain food products rose due to limited supply

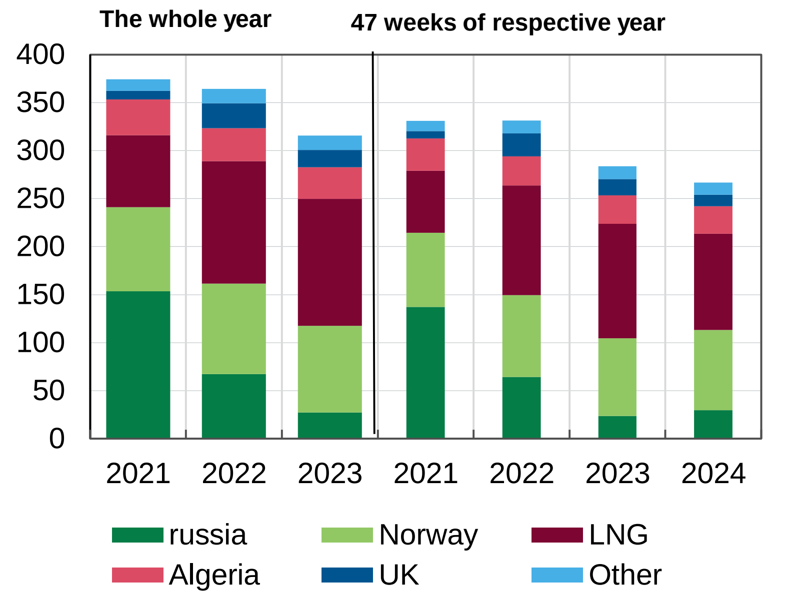
Global oil prices fluctuated within a narrow range, while natural gas prices rose due to increased demand

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



Source: LSEG.

Natural gas imports to the EU by origin, bcm

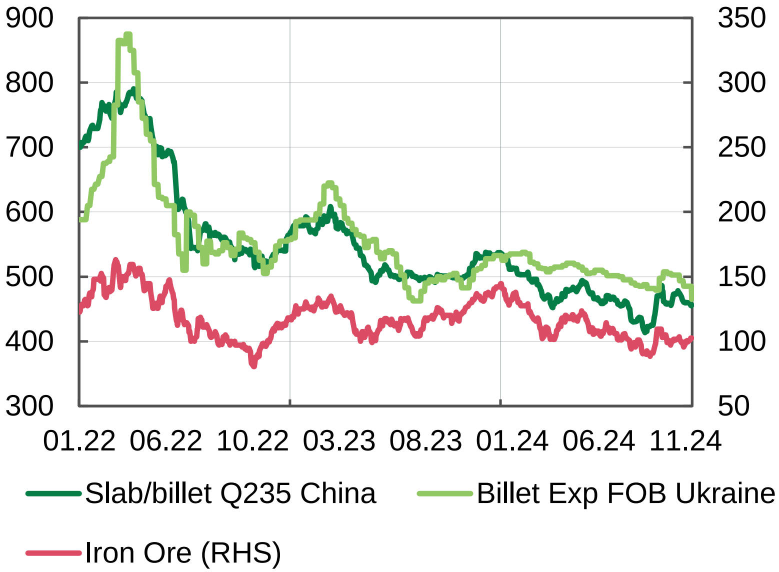


Source: Bruegel (russia, Norway, Algeria – pipelines).

- Global oil prices remained volatile. Weakness in global demand, primarily from China, amid sustained production by the United States, as well as Iran and Venezuela despite sanctions, put downward pressure on prices. Only the effect of OPEC+ restrictions and the inherent risk premium due to geopolitical conflicts that could lead to disruptions in oil supplies kept prices from falling deeply
- Natural gas prices in Europe grew slowly, driven by increased demand due to colder weather, which also led to a decline in wind power generation. As a result, gas withdrawals from storage facilities increased. An additional factor was increased uncertainty about Russian gas supplies. In contrast, rising LNG imports, primarily from the United States, amid weaker demand in Asian markets, and still sufficient stock levels kept prices from rising more rapidly

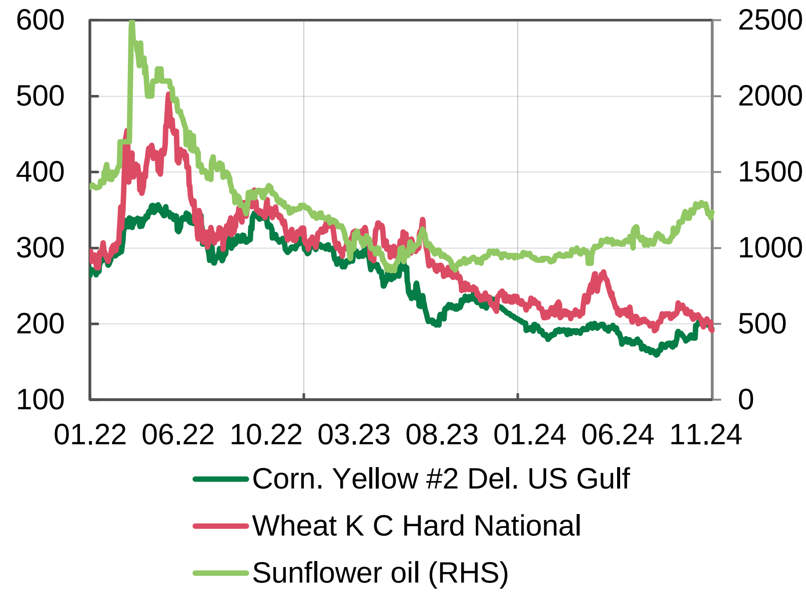
Global prices for commodities prevailing in Ukraine's exports moved in different directions under the influence of specific factors

Global steel and iron ore prices, USD/MT



Source: LSEG, Delphica.

Global grain and sunflower oil prices, USD/MT

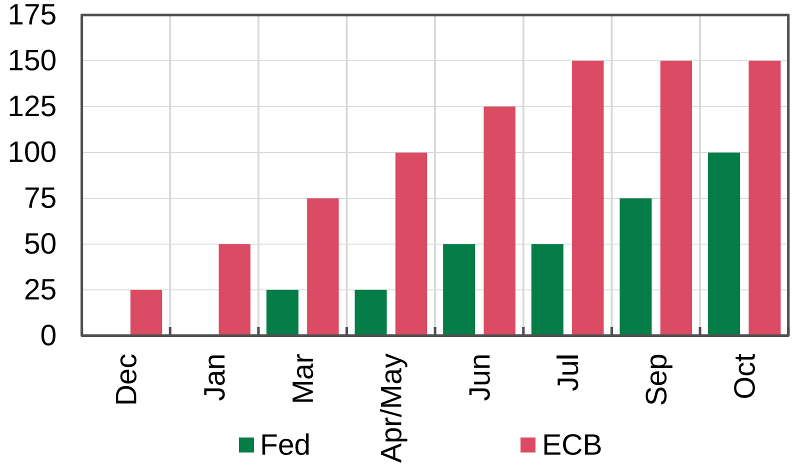


Source: LSEG.

- Steel and iron ore prices fluctuated within a relatively narrow range. The gradual weakening of demand from construction due to the cold snap in the Northern Hemisphere and the relative weakness of domestic demand in China put downward pressure on prices. On the other hand, optimism amid a series of government stimulus measures in China, relatively robust demand in the Persian Gulf countries, and a gradual decline in global steel production kept prices from falling further
- Grain prices moved in opposite directions: wheat fell in price, while corn grew more expensive. Strong competition from the Black Sea region and improved winter crops sowing in the US pushed wheat prices down. Corn, on the other hand, rose in price due to the USDA's downgrading of its estimates of the global ending stocks of corn in MY 2024/2025, the US harvest, and exports by the Black Sea countries
- Sunflower oil prices, despite a brief correction, rose significantly due to limited supply, primarily from Ukraine, amid high demand. Only the anticipated record soybean harvests in the leading exporting countries (the US and Brazil) put downward pressure on prices

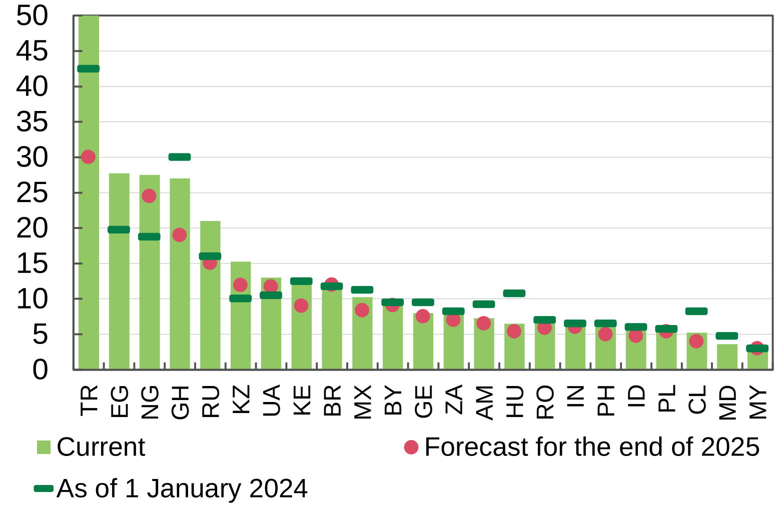
Major CBs continue to gradually cut interest rates, but EM CBs are more cautious due to the expected acceleration of inflation

Market expectations for the Fed and ECB rate cuts, as of the date of the meeting, cumulative, bps



Source: NBU staff estimates based on Bloomberg World Interest Rate Probability data.

Key policy rates in selected EM countries, %



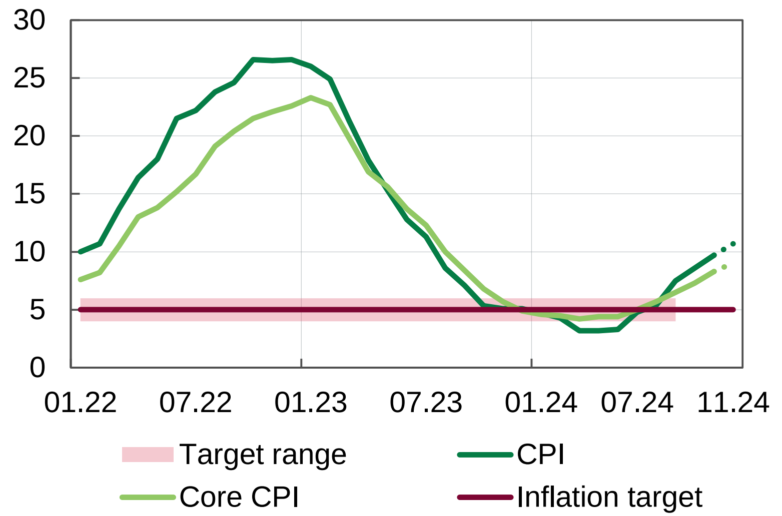
Source: official web pages of central banks, Focus Economics, Oxford Economics, as of 29.11.2024.

- The Fed, as expected, cut its target range for the federal funds rate by 25 bp in November, but uncertainty regarding further moves remains amid persistence of core inflation. Financial markets are pricing in a pause until March, and a total of 100 bp in rate cuts by October 2025
- The ECB has signaled the possibility of a rate cut in December. The weakness of the Eurozone economy adds confidence to financial market participants regarding the ECB rate cuts at each meeting through July and by a total of 150 bp by October 2025
- The balance of risks for most EM countries remains tilted to the upside against the backdrop of geopolitical tensions, rising uncertainty due to the US policy changes, and amid base effects. Therefore, EM CBs are cautious regarding their further moves. In particular, the CBs of Hungary and Romania believe a pause is justified, and the Czech CB is considering pause in monetary easing. Expectations have grown that the CB of India will postpone rate cuts until early 2025. At the same time, the CBs of Brazil (for the second time in a row) and Kazakhstan have raised their rates

Ukraine: Inflation

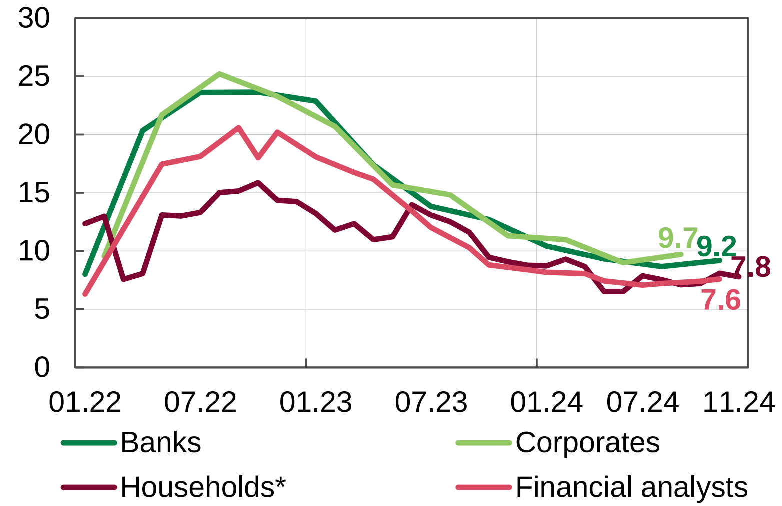
Price pressures continued to increase

Inflation* and inflation target, % yoy



* Data for November reflects nowcast. The target range remained in effect until August 2024 inclusive
Source: SSSU, NBU staff estimates.

Inflation expectations for the next 12 months, %

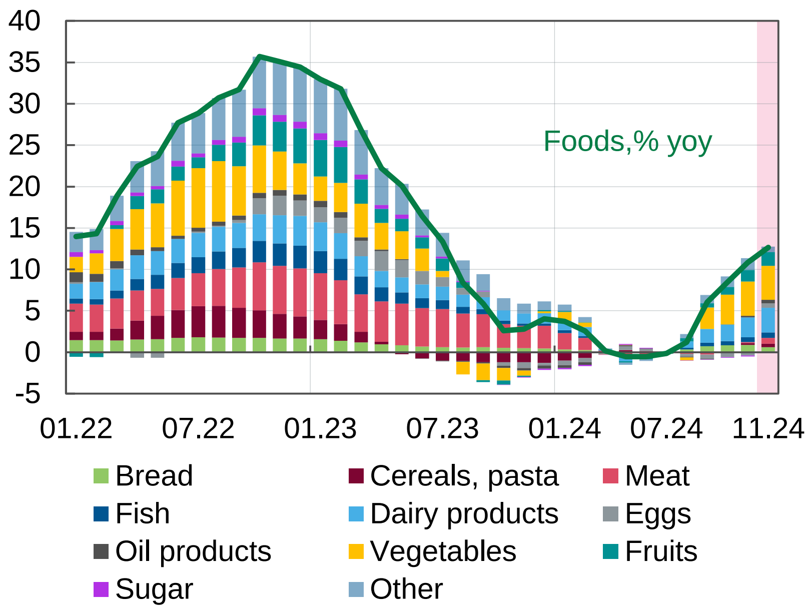


* In March 2022, the survey method was changed from face-to-face to telephone interviews.
Source: NBU, Info Sapiens.

- The actual consumer inflation accelerated (to 9.7% yoy) and exceeded the trajectory of the NBU's forecast published in the October 2024 Inflation Report. In particular, faster acceleration in food inflation was driven by a stronger-than-expected impact of adverse weather conditions on agricultural crops. Administered prices and fuel prices also grew somewhat faster than expected
- According to the NBU's estimates, inflation accelerated further in November
- Underlying inflationary pressures also intensified in October. Core inflation rose to 8.3%, driven by fast increases in processed-food prices due to higher costs of raw-food inputs, further growth in business costs of power and labor, and the effects from the hryvnia depreciation in previous periods for prices

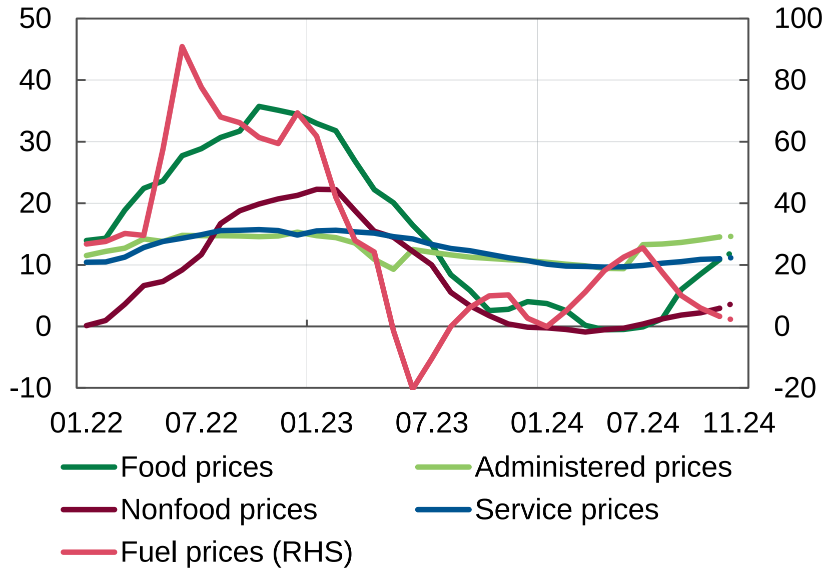
Price growth accelerated across almost all CPI components

Contributions to the annual change in food prices*, pp



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

Selected CPI components*,% yoy

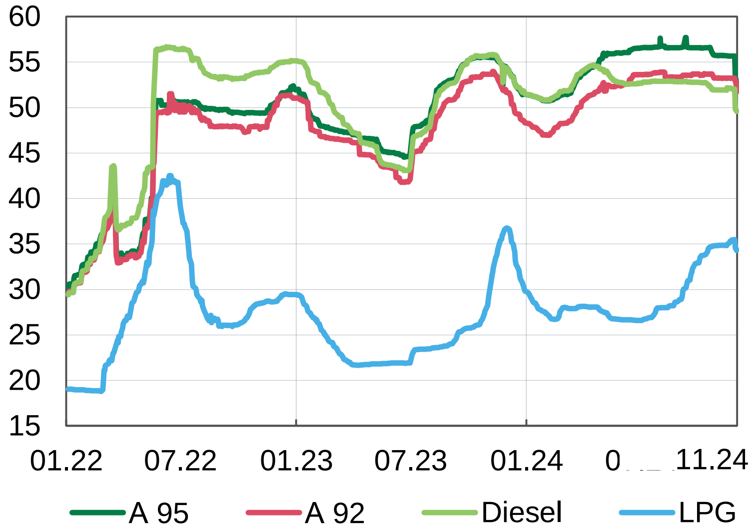


* Data for November reflects nowcast.
Source: SSSU, NBU staff estimates.

- In October, food inflation accelerated sharply due to the effects of hot, dry weather in the summer and fall of this year, which affected the crop yields, ripening times, and quality parameters of foods, especially certain vegetables and fruits
- Prices for processed foods also rose at a faster pace due to higher prices for raw food inputs, as well as further increases in production costs for power supply and labor
- Prices for nonfood products also accelerated, primarily due to the exchange rate factor in previous periods. This likely contributed to the slowdown in the decline in prices for clothing and footwear. Prices for services, including health care, communications, and personal care, grew somewhat faster due to higher production costs

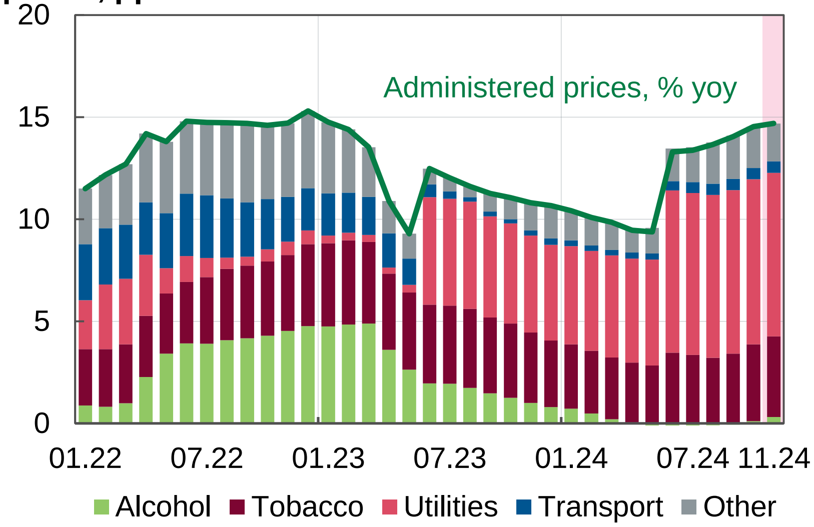
Administered inflation accelerated slightly, while fuel price growth slowed down

Fuel prices, UAH / L



Source: minfin.com.ua.

Contributions to the annual change in administered prices, pp

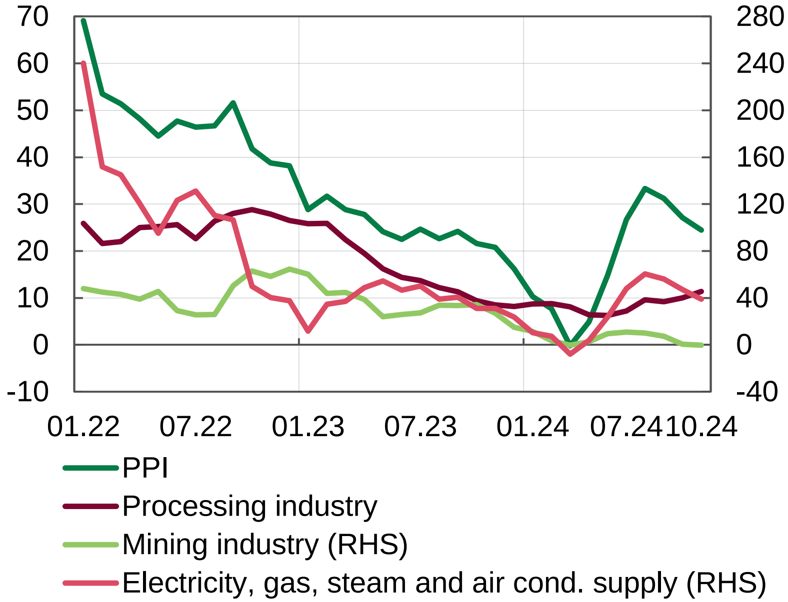


* Data for November reflects nowcast.
Source: SSSU, NBU staff estimates.

- Fuel price growth slowed in October. The supply in the fuel market remained ample, despite a brief rise in raw material prices in the first half of October
- However, prices for alcoholic beverages and tobacco products increased more sharply, including due to the weaker hryvnia in previous periods and efforts to combat shadow-market supply
- The growth in prices for pharmaceuticals and medical supplies and equipment accelerated
- As before, the moratorium on raising certain utility prices for households continued to restrain the increase in administered prices

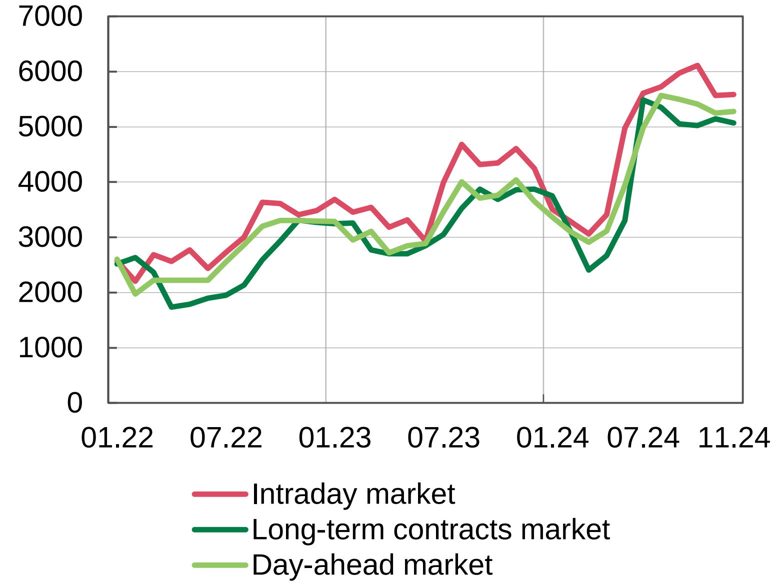
The growth in producer prices slowed in October, but remained elevated

PPI and its components, % yoy



Source: SSSU.

Electricity prices for non-household consumers, UAH/MWh



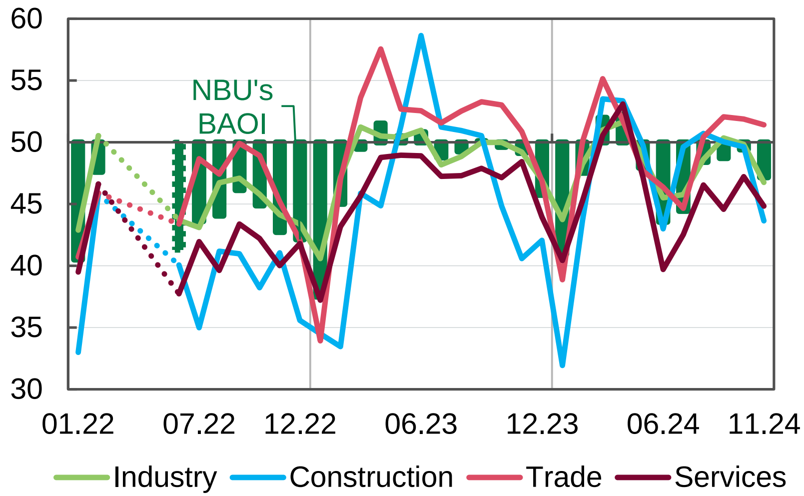
Source: Ukrainian Energy Exchange, Market operator.

- PPI growth decreased slightly (to 24.5% yoy in October), primarily amid slower energy price growth, supported by a stable situation in the energy sector
- Prices also declined in the mining industry and in the production of coke and refined petroleum products, primarily driven by the downward trend in global crude oil prices. Meanwhile, price growth in metal ore mining accelerated amid increased export volumes
- Prices in food processing also rose at a faster pace, primarily in the production of dairy, flour, and meat products, due to the rising costs of raw food inputs as well as production costs

Ukraine: Economic activity

Business expectations worsened in a number of industries in November

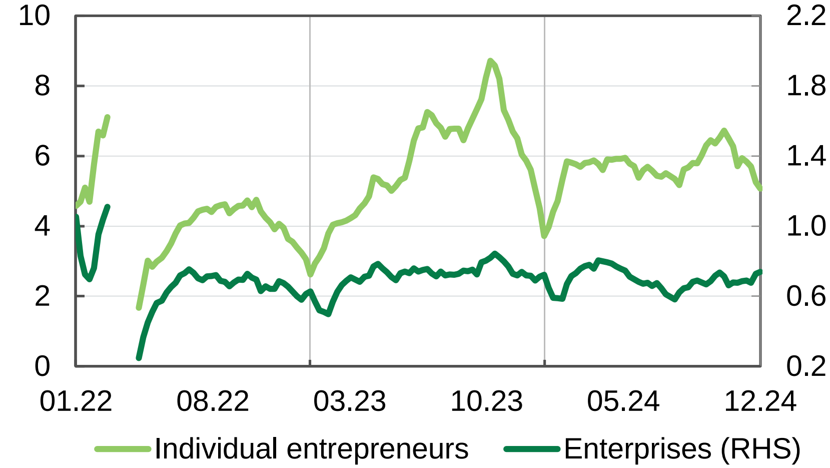
NBU's Business Activity Outlook Index, p



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

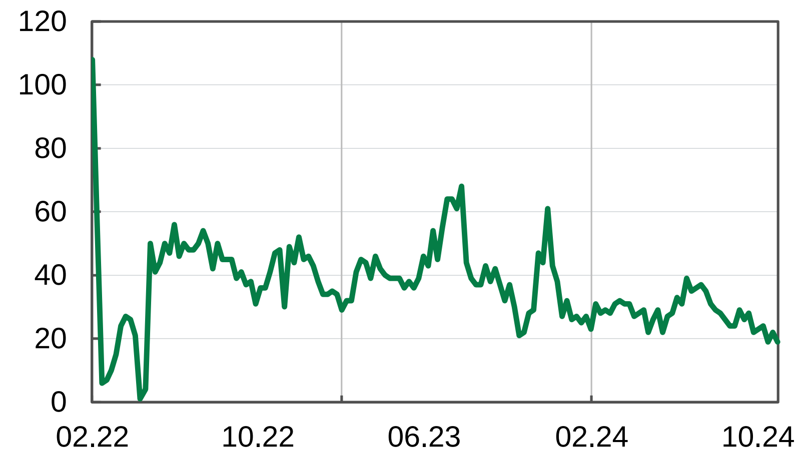
- Business expectations worsened in November amid the widening energy deficit, the shortage of personnel, and the lack of high-quality agricultural raw materials
- As a result, economic activity slowed in a number of areas. At the same time, the transportation sector continued to recover against the backdrop of the arrival of the new harvest, while investment in the extraction of energy resources and demand for fertilizers supported certain industrial sectors

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



Source: opendatabot.ua.

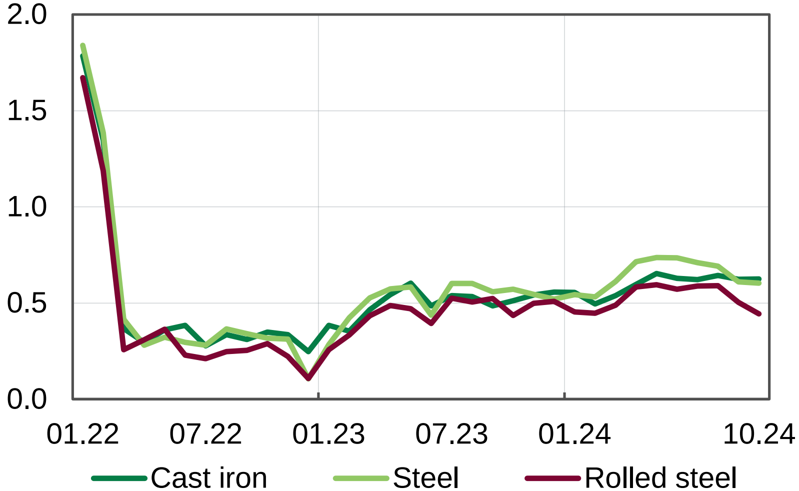
Number of train tickets sold per week, % to pre-war level



Source: opendatabot.ua.

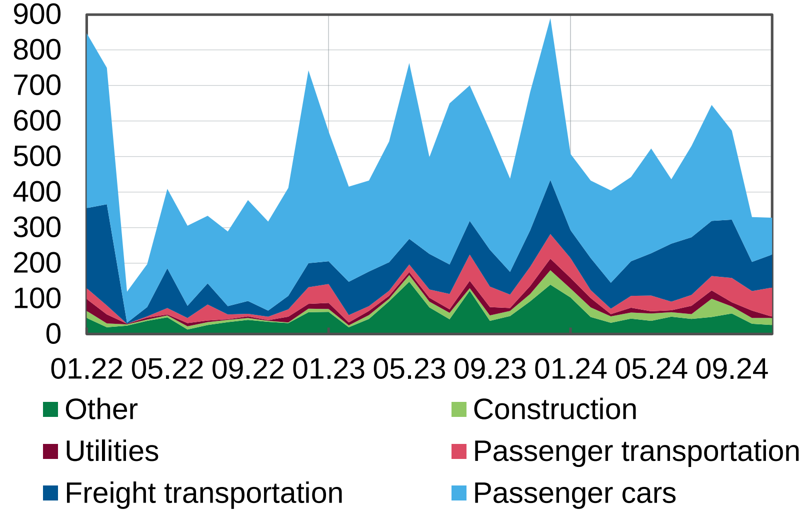
Activity in a number of industrial sectors has declined; although increased energy production has supported industry

Production of steel, cast iron and rolled steel, million tons



Source: Ukrmetalurgprom.

Registration of vehicles manufactured in Ukraine by field of use, units

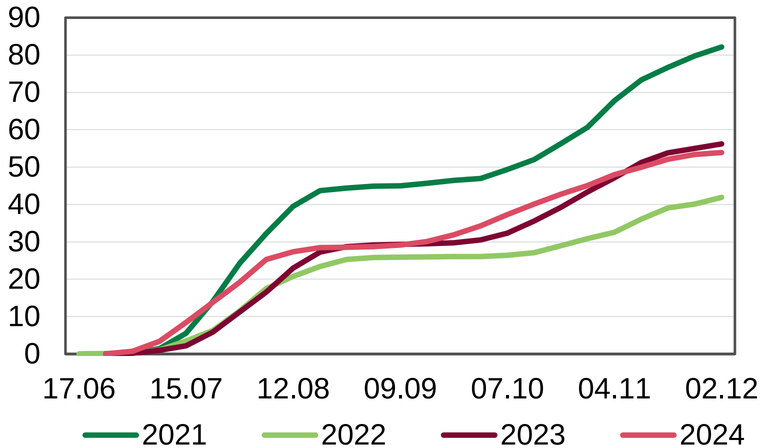


Source: Ministry of Internal Affairs.

- Metallurgical production is declining, while foreign orders and domestic demand for pipe products supported the industry
- Amid the start of the “hot season”, fertilizer producers increased their production capacities after a reduction in October
- The production and modernization of railway wagons supported mechanical engineering, but in November, the production of automobiles declined (-21.6% yoy and -10.7% mom), in particular passenger cars production
- At the same time, coal, gas, and oil companies introduced their new capacities in November; investment in gas and oil production continued expanding; and some iron ore mines ramped up their production

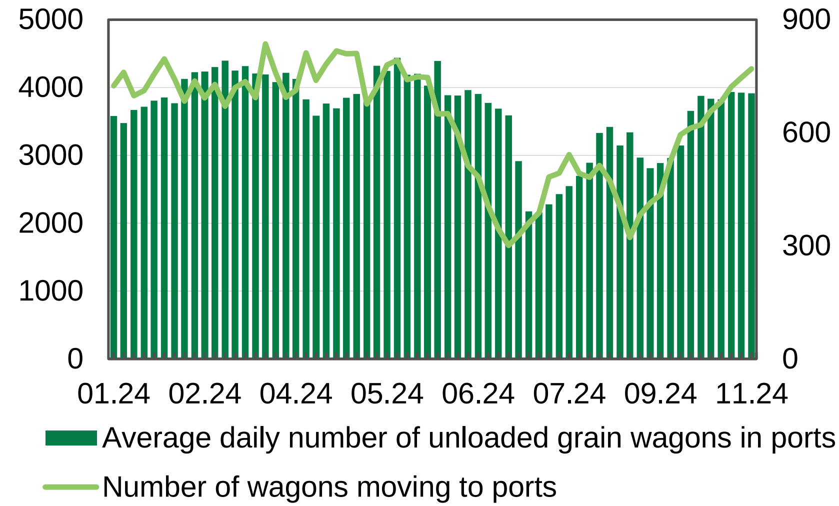
The arrival of the new harvest supported transportation, but a shortage of agricultural raw inputs is hindering processing

Grain and leguminous crop volumes, million tons, cumulative



Source: MinAgro.

Rail transportation of grain cargo to seaports



Source: Rail.insider, UZ.

- The harvesting of late crops is coming to an end. As of the end of November, the total harvest was 4% lower than last year's, primarily due to the negative impact of weather conditions on yields
- There is a shortage of raw materials for the flour milling and baking industry and oil production; a number of vegetable oil production plants have switched to processing rapeseed and soybeans or halted operations
- The seasonal supply weakness held back meat processing, while raw input shortages and rising production costs held back milk processing; at the same time, production of a number of dairy products picked up thanks to export demand; sugar refining season has been successful, and sugar production volumes are close to last year's level
- Against the backdrop of new harvests, grain cargo transshipment at ports picked up somewhat in November, and rail transportation to ports continued its rapid growth, supporting the transportation sector; however, rail transfers of grains via the western crossings and road exports declined due to temporary suspension of cargo transfers at the Romanian border and protests at the Polish border

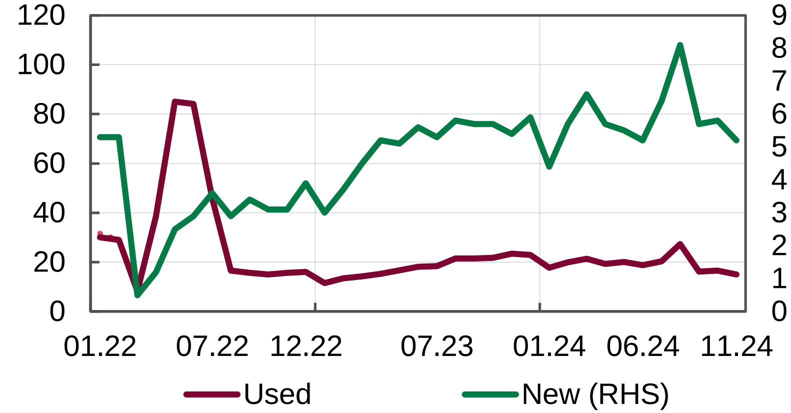
Meanwhile, trade has revived amid the seasonal sales and growing demand for energy independence products

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

Source: Opendatabot (Khoroshop service).

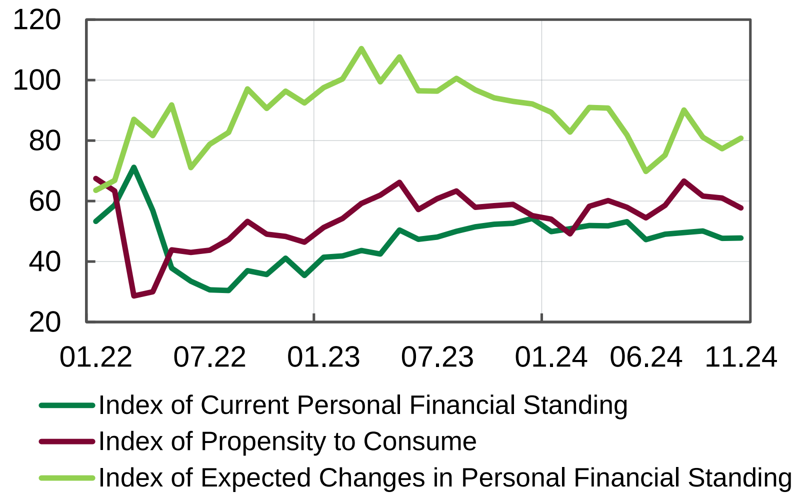
- November trade has revived amid the Black Friday sales surge and a rise in sales of lighting devices
- Traders turn to automation of processes amid growing staff shortages
- New car sales were down by 10% mom and by 3% yoy in November
- Consumer sentiment shows mixed dynamics

The first registration of passenger cars, thousand units



Source: Ukravtoprom.

Components of the consumer sentiment index, p

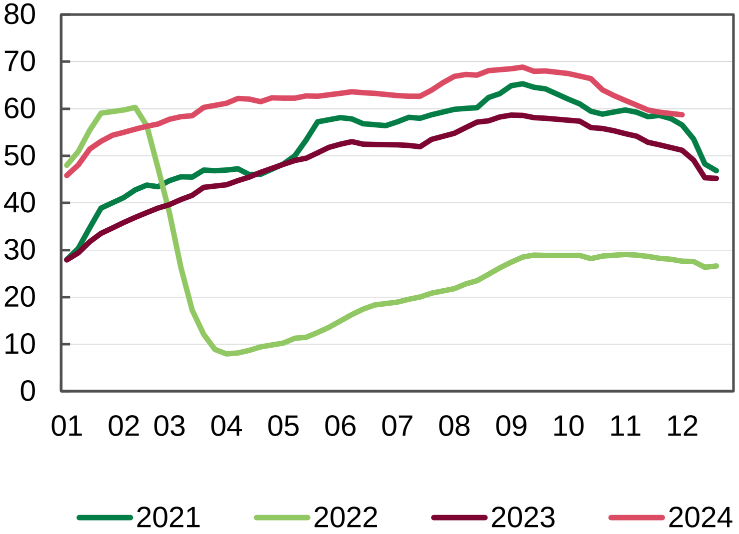


In March 2023, the survey method was changed from face-to-face to telephone interviews. Source: Info Sapiens.

Ukraine: Labor market

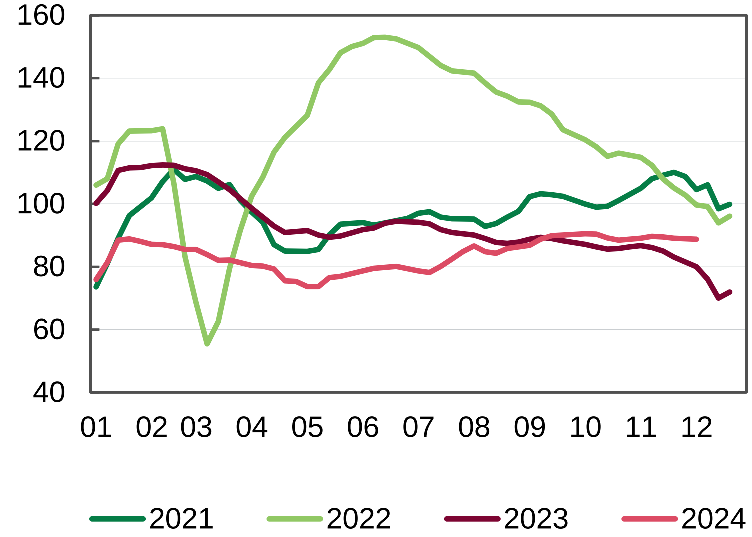
Job openings decreased in November due to economic slowdown, while the number of resumes rose in annual terms

New job openings, four-week rolling average, thousands



Source: work.ua, NBU staff calculations.

New resumes, four-week rolling average, thousands

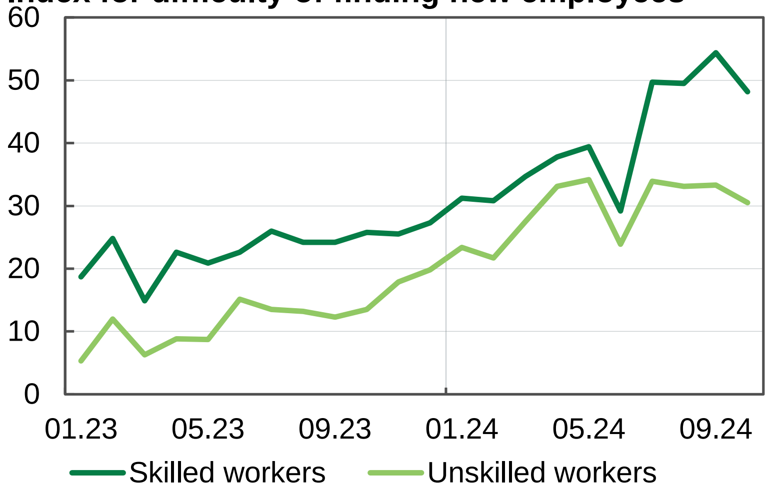


Source: work.ua, NBU staff calculations.

- The number of new job openings slightly decreased compared to previous months due to both seasonal factors and the weakening of economic activity (in November, year-on-year growth slowed to 12.1%)
- The number of resumes has remained almost unchanged since the beginning of the autumn. At the same time, in November, its growth rate accelerated to 4.2% yoy

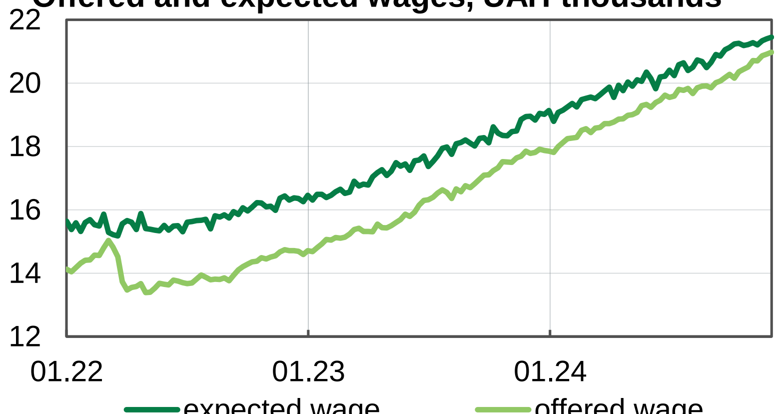
Household incomes continue to grow

Index for difficulty of finding new employees*



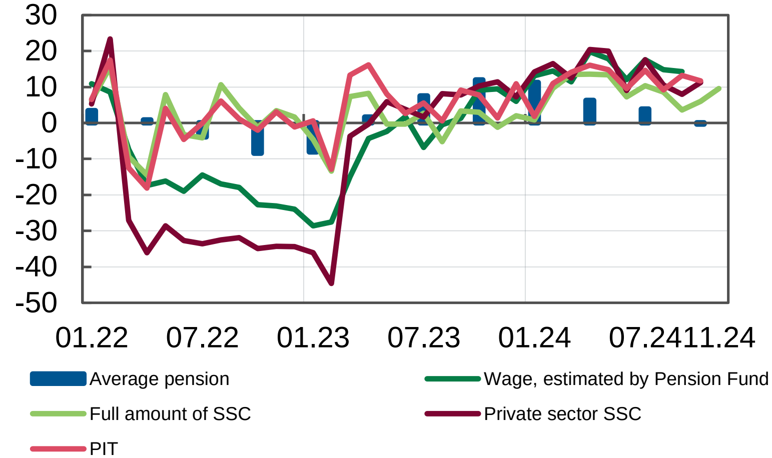
* Difference between the shares of answers: “finding employees has become more difficult” and “finding employees has become easier”.
Source: IER.

Offered and expected wages, UAH thousands



Source: work.ua

Indirect indicators for estimating real household income*, % yoy

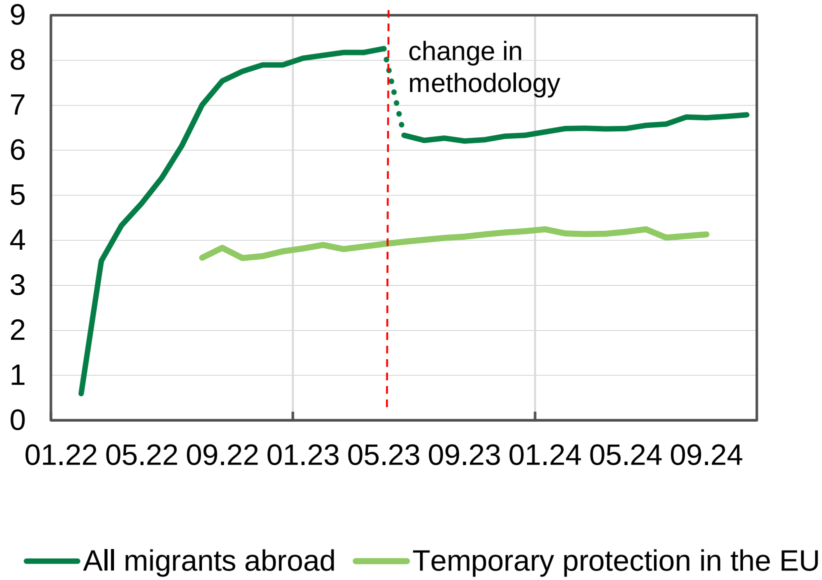


* Deflated by CPI. The private sector SSC is calculated as the difference between total SSC and SSC on wages from the consolidated budget.
Source: Pension Fund of Ukraine, STSU, SSSU, NBU staff calculations.

- The increase in labor supply has made it easier for companies to find employees, although the shortage of employees is still significant
- Due to a significant shortage of workers, wages kept rising, particularly in the private sector

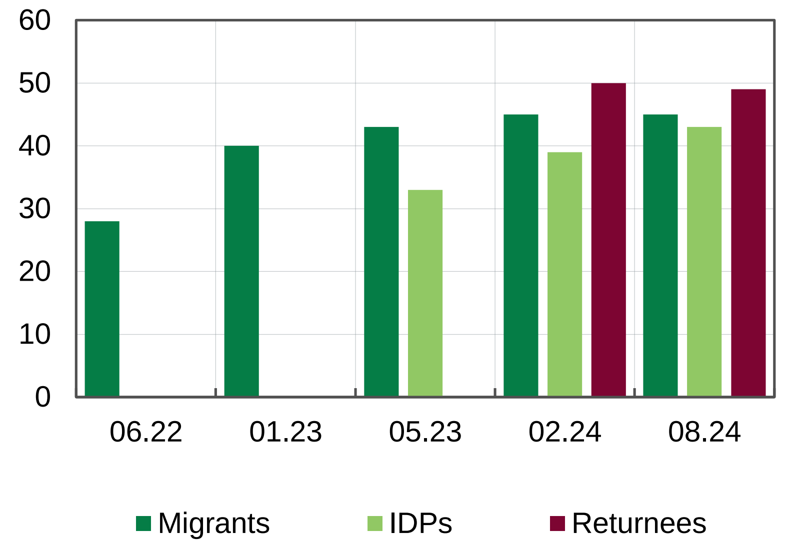
The number of migrants is gradually increasing, as is the adaptation of Ukrainians in other countries

Number of migrants since the beginning of the full-scale invasion, million persons



Source: UNHCR, Eurostat.

Share of employed and self-employed persons among respondents, %



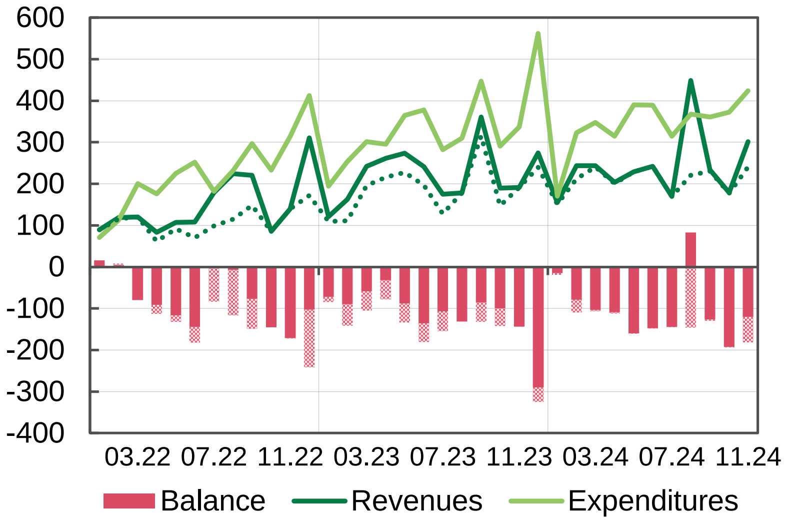
Source: UNHCR.

- According to the UNHCR, the number of migrants outside Ukraine continued to grow and amounted to 6.8 million as of 18 November 2024, the number of IDPs stabilized at 3.6 million in October (according to IOM), and the number of those who returned to their permanent places of residence (since the beginning of the full-scale invasion) amounted to 4.3 million
- According to the UNHCR, the employment rate among both migrants and IDPs is gradually increasing (to 45% and 43%, respectively, according to the survey held in August 2024). According to the survey of Ukrainian migrants in Poland in July 2024, the majority (68%) have jobs, and 77% of their children attend Polish schools

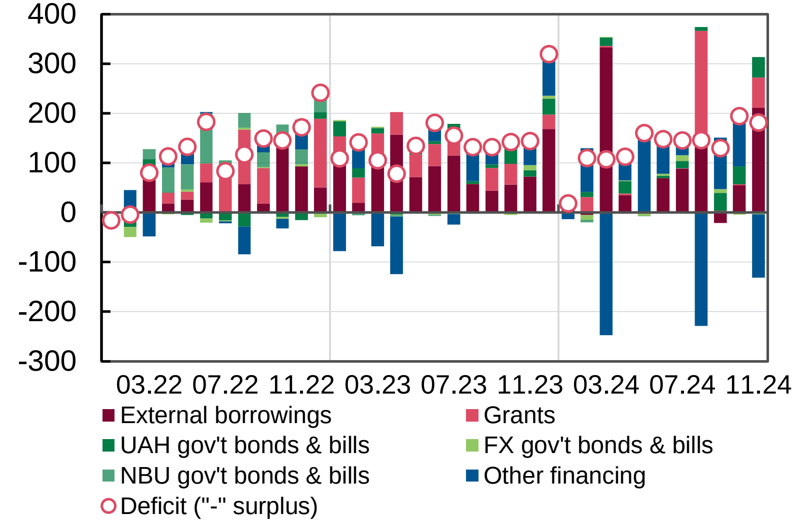
Ukraine: Fiscal sector

At the end of the year, the state budget deficit (excluding grants in revenues) widened, as expected

Main state budget indicators* (monthly), UAH billions



Financing of the state budget balance (excluding grants in revenues), UAH billions**

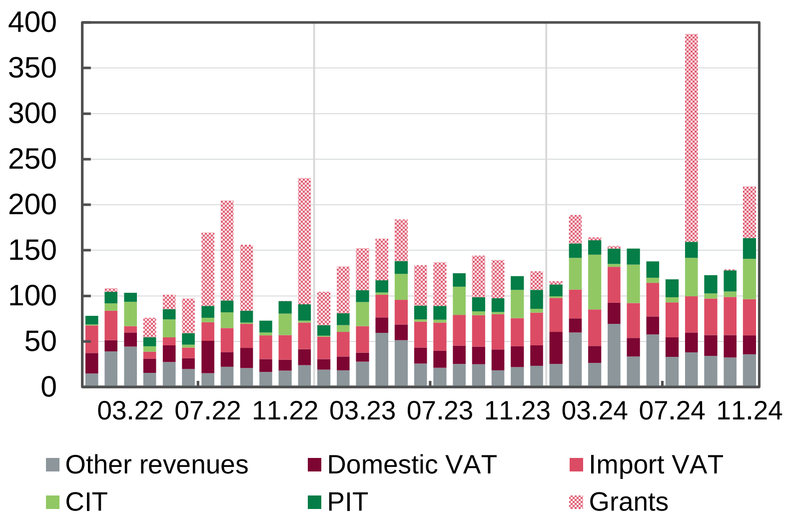


* Dotted lines and patterned fillings show relevant indicators excluding grants. Balance includes net lending. ** Debt transactions are net borrowings. Other financing represents active operations (in particular, includes the change in volumes of gov`t funds) and privatization proceeds.
November – preliminary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

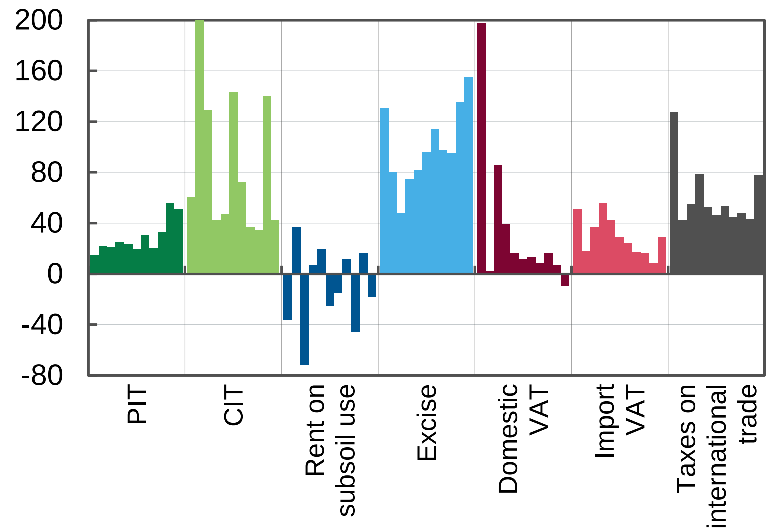
- In October-November, the state budget deficit (excluding grants in revenues) increased considerably, and its volume in January-November came close to the level of the corresponding period of the previous year
- International aid remains the main source of financing budget needs. In October-November, more than USD 7.9 bn was received, of which about USD 6.5 bn in November. Such assistance volumes made it possible to finance state budget expenditures, as well as create a certain liquidity buffer for future periods
- Meanwhile, in October-November, the domestic borrowing market also saw high activity: the borrowing volumes were the largest since the beginning of the full-scale Russian invasion. The significant volumes of government debt securities placement were facilitated by the NBU`s additional measures to stimulate investments in government securities as well as by rather appealing yields

Tax revenues continued to grow

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



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

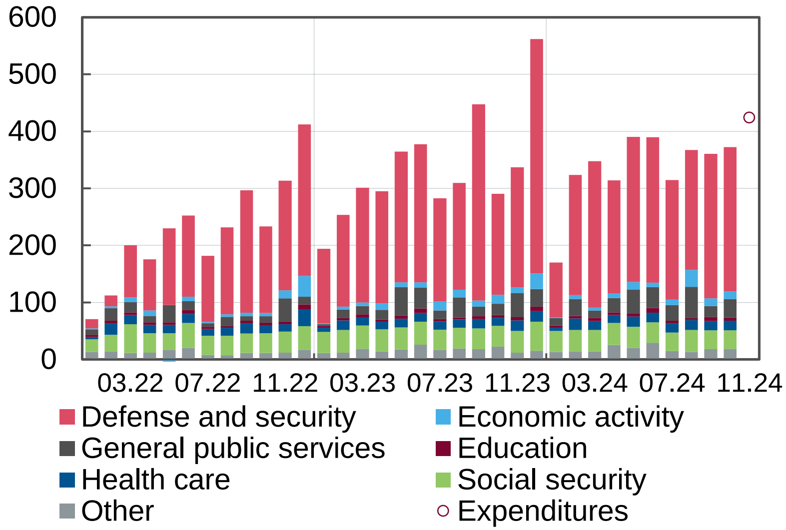


* November – preliminary data from the MFU website, the data will be refined. NBU calculations based on the MFU's data.
Source: STSU, MFU, NBU staff calculations.

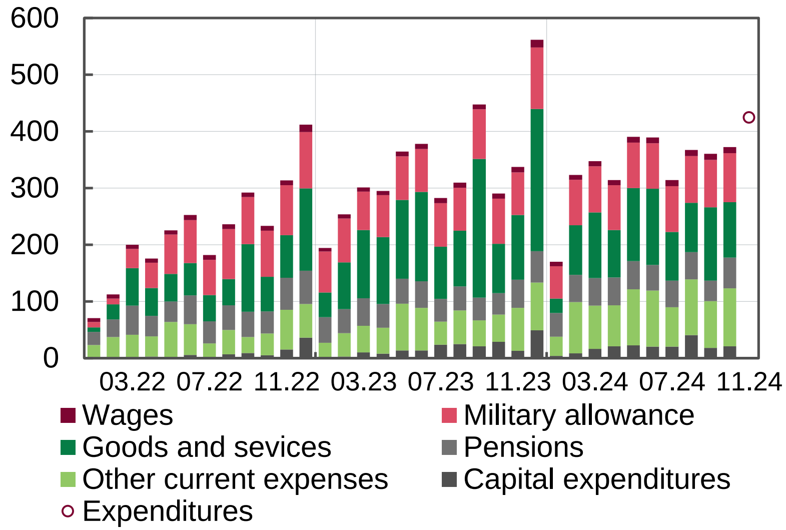
- In October-November, the growth in general fund revenues (excluding grants) accelerated somewhat, primarily thanks to tax revenues
- The increase in tax revenues was supported by both the growth in the tax base and improvements in tax administration. At the same time, the VAT refunds volume was also significant (over UAH 30 bn were refunded in October-November compared to roughly UAH 20 bn last year)
- In November, grants were also a significant source of revenues (almost 26% of general fund revenues)

The considerable increase in expenditures in November was facilitated by significant volumes of international aid

Expenditures* of the state budget, UAH billions (functional classification)



Expenditures* of the state budget, UAH billions (economic classification)



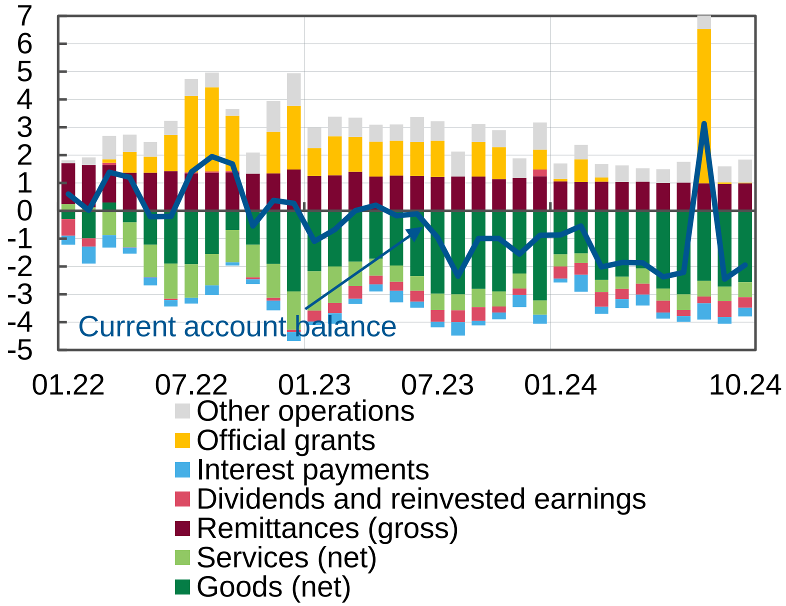
* November – preliminary data from the MFU website, the data will be refined. NBU calculations based on the MFU's data.
Source: STSU, MFU, NBU staff calculations.

- In October-November, state budget expenditures grew at a high pace (more than 25% yoy each month), and in November their volume was the largest since the beginning of the year. The latter may reflect the receipt of significant volumes of international aid and the expectation of further inflows in December
- Defense and security, as well as social programs, remained the priority spending areas. Capital expenditures also remained substantial, driven by military needs and efforts to eliminate the consequences of destruction, and probably more active activity of budget funds administrators at the end of the year

Ukraine: Balance of Payments

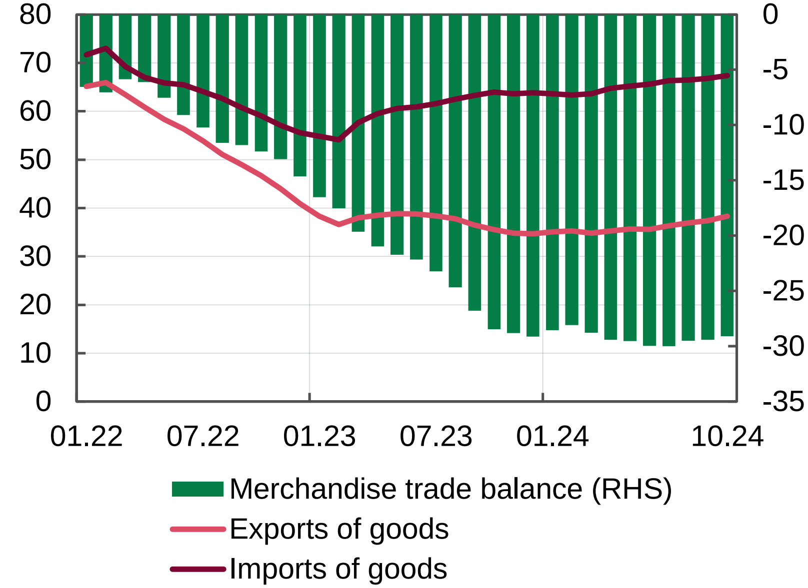
In October, the current account deficit narrowed slightly, although it remained substantial

Current account balance, USD billions



Source: NBU staff calculations.

Merchandise trade balance, 12-m rolling, USD billions

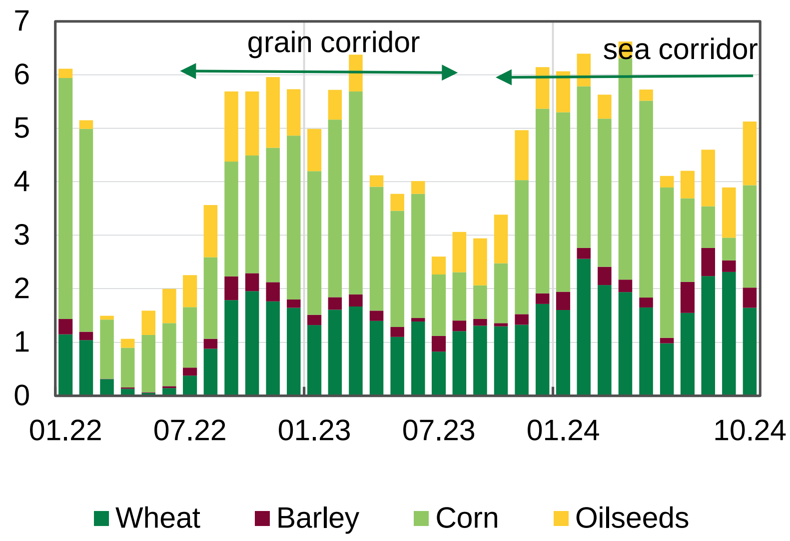


Source: NBU.

- In October, the amount of dividend repatriation declined, which was in line with the expected effect from the currency liberalization measures
- The growth in goods exports in October exceeded the increase in imports, contributing to a narrowing of the merchandise trade deficit

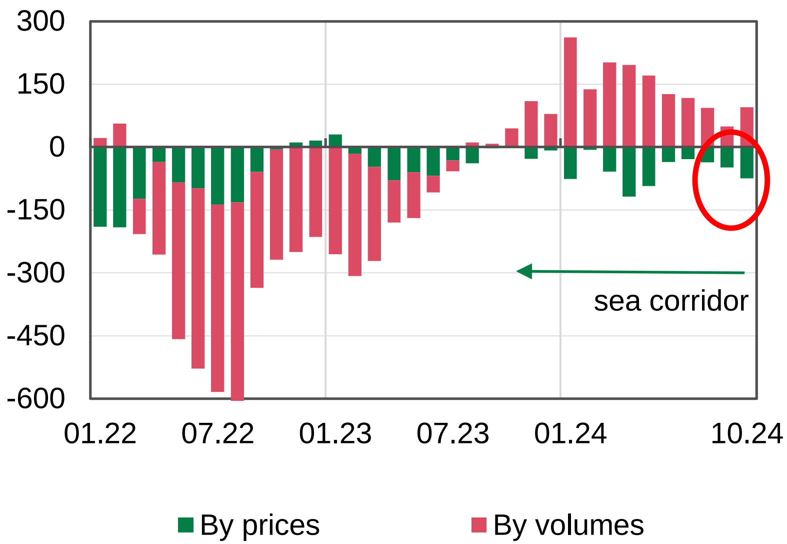
Seasonal increase in exports of corn, soybeans, and sunflower oil contributed to a significant rise in export revenues

Exports of agricultural products, million tons



Source: SCSU.

Contribution to annual change in iron ore exports, USD millions

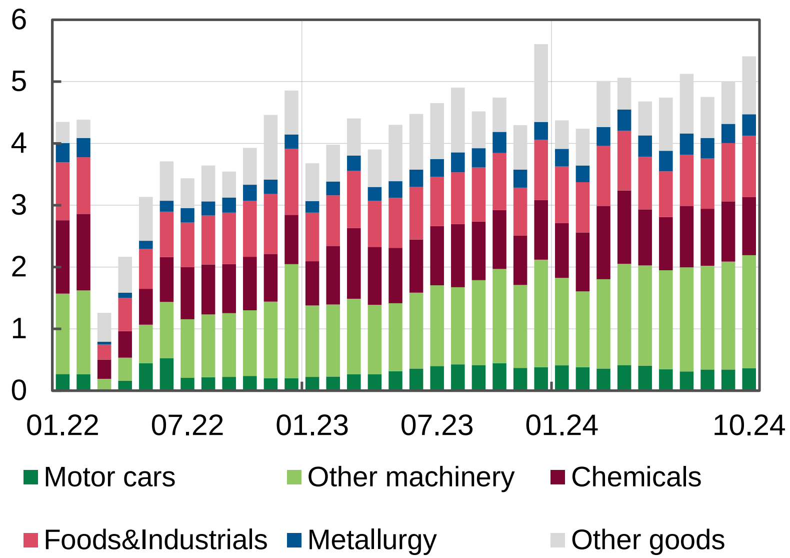


Source: SCSU, NBU staff calculations.

- The arrival of the new harvest of corn, soybeans, and sunflower contributed to the increase in exports of agricultural products and sunflower oil. The rise in global prices for these crops was an additional factor contributing to the higher export revenues
- The recovery of demand from China supported the growth in volumes of iron ore exports. However, the ore supplied to China tends to be significantly cheaper (and of lower quality) compared to other markets, which limited the increase in FX inflows
- The value of goods exports reached its highest level since September 2022

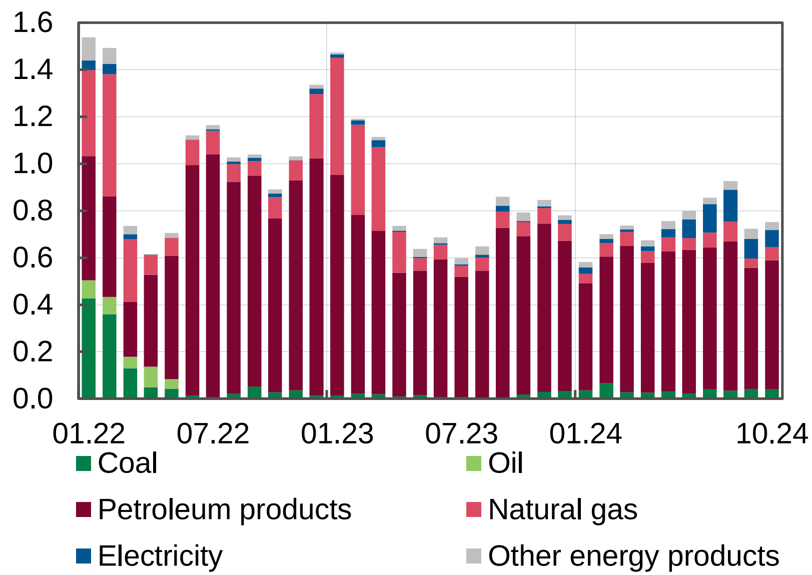
The import of goods increased more modestly, with its dynamics driven by preparations for the winter season

Non-energy imports, USD billions



Source: NBU.

Energy imports, USD billions

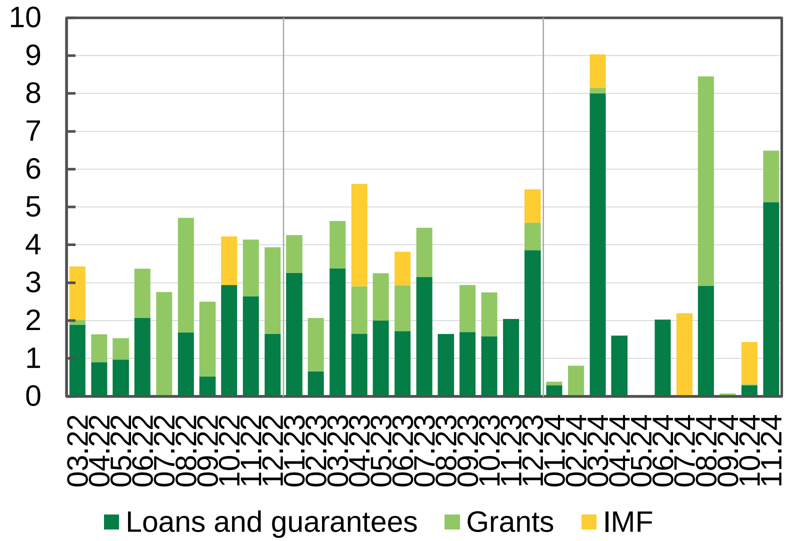


Source: NBU.

- Preparations for the winter season led to an increase in humanitarian aid inflows, purchases of specific machinery products (such as power generator sets, batteries, transformers, etc.), and oil products
- Additionally, as is typical for October, there was an increase in the import of some food products and plant protection products

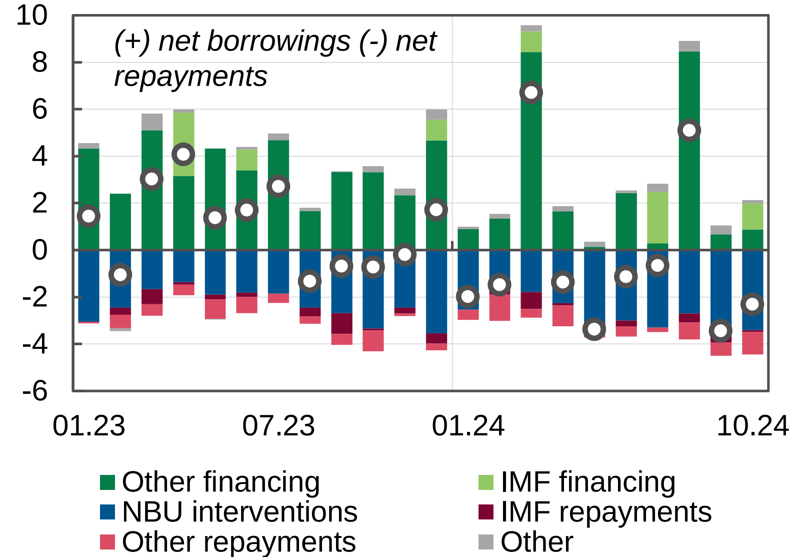
International financial aid helped maintain reserves at a sufficient level

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



Source: NBU, MFU, open sources data.

Change in gross international reserves, USD billions



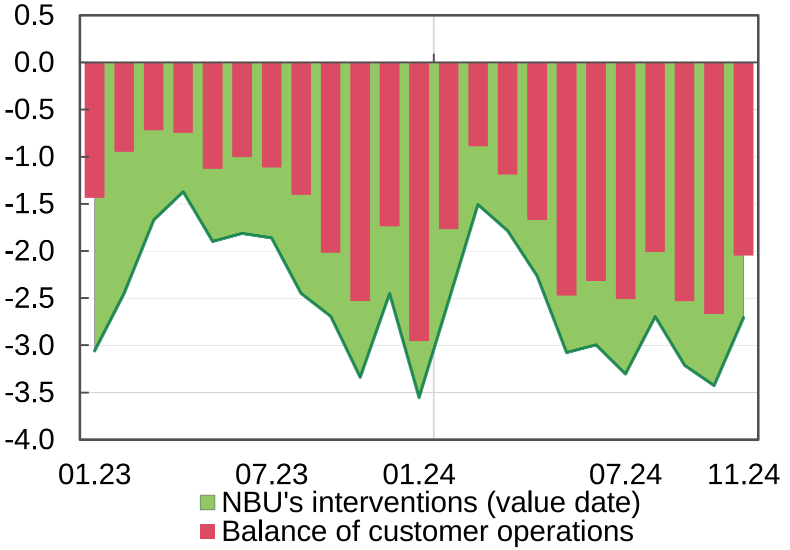
Source: NBU.

- The high demand for FX cash from the population led to an increase in capital outflows from the private sector. This, along with the negative current account balance, generated a significant structural foreign currency deficit
- Due to the relatively modest inflows of international financial aid, reserves decreased to USD 36.6 bn in October. Ukraine received USD 1.4 bn in concessional financing from Canada and another tranche from the IMF under the EFF program. However, in November, reserves grew thanks to substantial inflows of official financing

Ukraine: Monetary sector

In November, the hryvnia exchange rate fluctuated in both directions, driven by market conditions

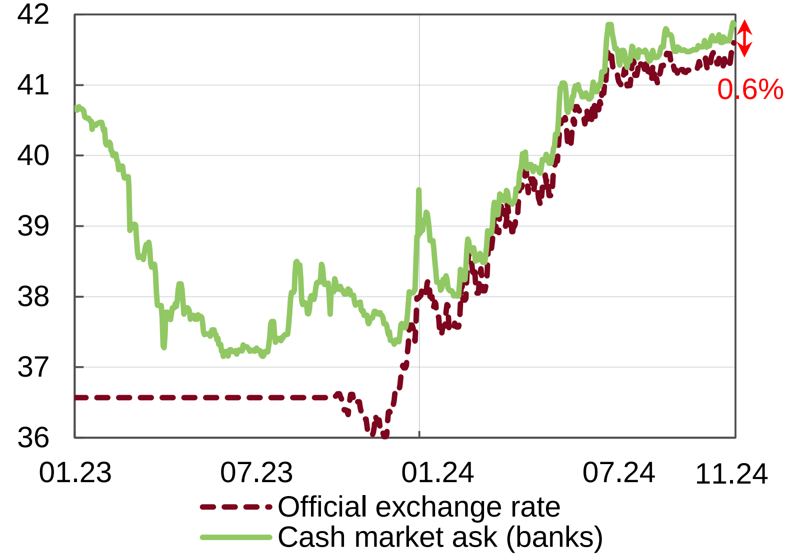
Bank clients' FX transactions* and NBU FX interventions, USD billions



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

Source: NBU.

Hryvnia exchange rates, UAH per USD

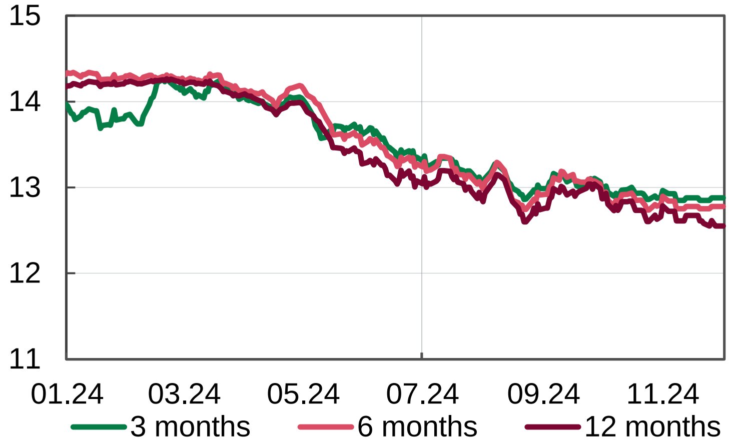


Source: NBU.

- In November, the average monthly hryvnia exchange rate was close to the level of the previous month and slightly weakened at the end of the month. Meanwhile, driven by market conditions, the amplitude of its fluctuations slightly increased. However, the spread between the cash and official exchange rates did not exceed 1.0% throughout the month
- The NBU's FX interventions remained the main mechanism for balancing the FX market, but their volumes decreased to USD 2.7 billion. The inflow of international financial assistance and the staff level agreement with the IMF on the sixth review of the Extended Fund Facility program further enhanced the NBU's capacity to maintain a sustainable situation in the FX market
- The NBU continued to take prudent, gradual FX liberalization measures, along with the steps to tighten the discipline of compliance with FX restrictions

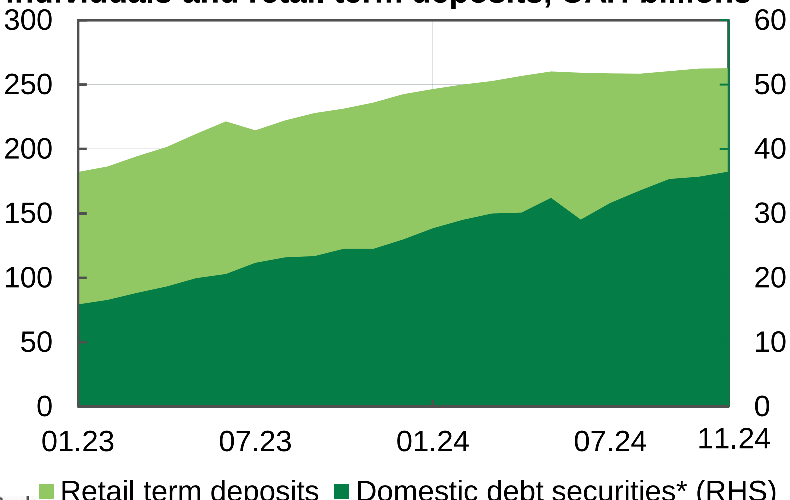
Individuals' investments in hryvnia instruments continue to grow

Ukrainian Index of Retail Deposit Rates*, %



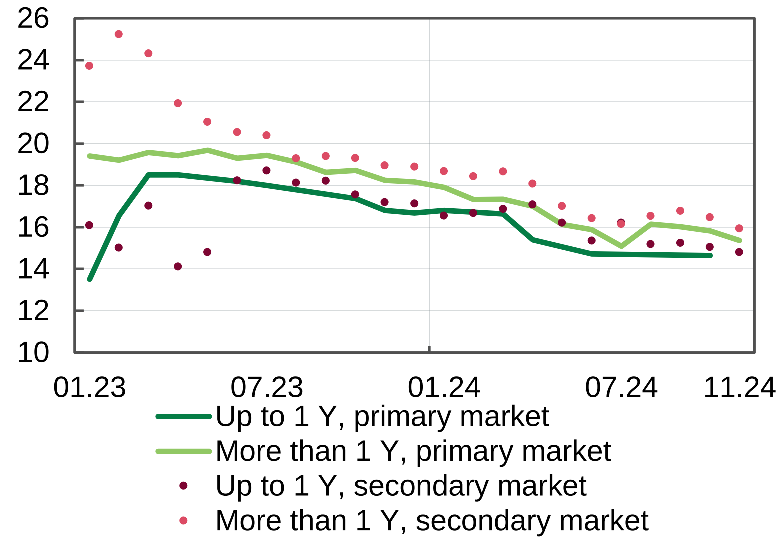
* 5-day moving-average. Source: Thomson Reuters.

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



* At outstanding nominal value. Source: NBU.

Yields on hryvnia domestic debt securities, % per annum



Source: NBU staff calculations.

- Despite nominal reduction in rates in certain segments, the yields on hryvnia instruments remained positive in real terms
- Strong demand for new issues of hryvnia domestic government debt securities (expected to be included in the list of reserve bonds) enabled the government to slightly reduce the cost of borrowing during the primary placement of domestic government debt securities
- Stock of hryvnia-denominated deposits and individuals' holdings of domestic government debt securities continue to increase