

# Latest developments in Ukraine

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The Ukrainian FX market was trading in the USD/UAH 27.85-28.17 range, with the hryvnia reclaiming 0.3% from the greenback over the week. The NBU abstained from the market for the third week in a row.

As a routine action, the government extended national quarantine (this underlying mode has been in effect since March 2020) for another 2 months, till the end of June. At the same time, COVID incidence in Ukraine has been on the decline path recently (after peaking about 2 weeks ago), with some regions already emerged from the “red zone.” Kyiv also has been following suit, and increased restrictions in Ukraine’s capital are expected to be lifted by the end of the next week.

**Industrial output growing now over lower baseline.** Industrial output resumed growth in March, increasing 2.1% y-o-y. However, when data is cleared of the lower baseline effect, this means output still remains weak in most of sectors (*see table below for 2Y comparison with 2019, which visibly clears data from low baseline effect*). Obviously, chemical industry remains the only growth center, supported by protectionist measures vs. imports of fertilizers from Russia. Iron ore production, wood processing, pharma manufacturing, construction materials and plastic production, and some minor industries have been holding rather well on the backdrop of a general industrial decline trend.

## *Industrial output by sectors in 2021, % real change*

	y-o-y in March	y-o-y in 1Q21	over 2Y in March	over 2Y in 1Q21	
<b>Mining&amp;drilling</b>	<b>-1.5</b>	<b>-2.8</b>	<b>-5.6</b>	<b>-6.9</b>	
Coal	8.1	-1.1	-12.3	-18.7	Squeezed out by renewables
Oil&gas	-4.4	-5.7	-7.7	-7.7	
Metal ores	3.2	1.4	0.1	-2.0	
<b>Manufacturing</b>	<b>2.5</b>	<b>-3.3</b>	<b>-5.0</b>	<b>-6.6</b>	
Food processing	-6.2	-9.1	-6.1	-5.4	Lower harvest to process
Light industries	14.6	-2.2	-3.7	-6.0	
Wood processing	5.0	-2.1	0.5	-1.3	
Coke&petroleum	-2.9	-7.2	-6.2	-6.5	
Chemicals	14.3	12.8	19.8	31.6	Restrictions on imports
Pharmaceuticals	-18.2	-1.3	-0.9	1.2	
Construction materials, plastic	3.9	-3.1	0.9	-5.8	
Steel	5.2	-0.6	-11.1	-10.6	Weak downstream (pipes etc.)
Machine-building	7.6	-2.4	-8.1	-15.6	Weak domestic demand
Other	26.1	7.8	3.7	-0.3	
<b>Energy</b>	<b>7.3</b>	<b>4.1</b>	<b>-1.5</b>	<b>-3.6</b>	Colder weather in 1Q21
<b>TOTAL INDUSTRY</b>	<b>2.1</b>	<b>-2.0</b>	<b>-4.7</b>	<b>-6.2</b>	

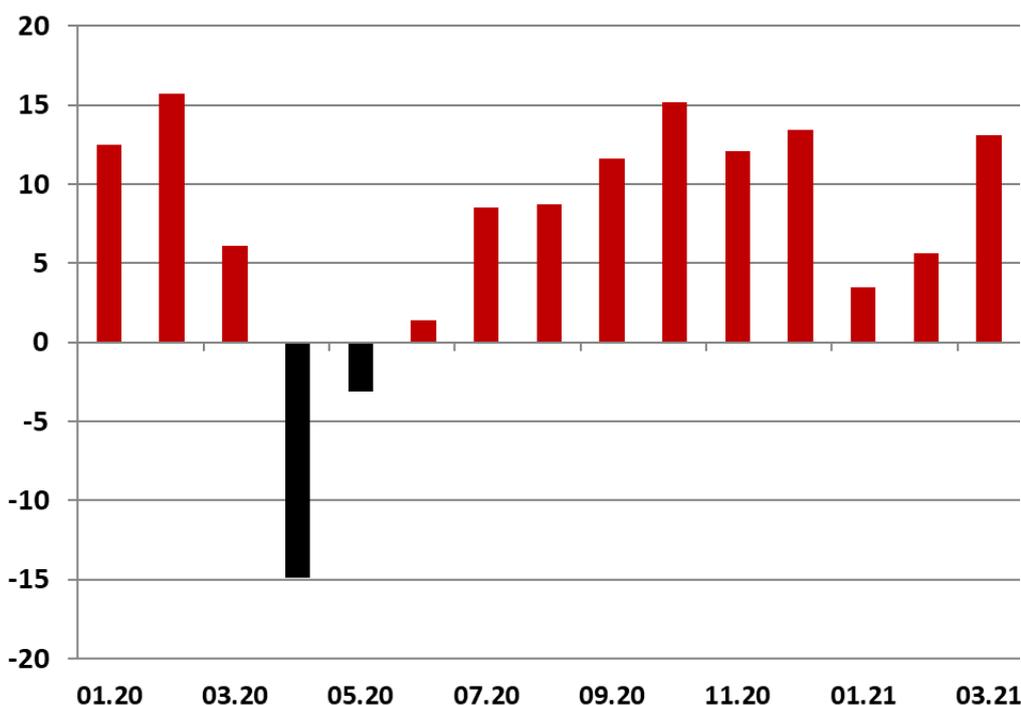
Sources: State Statistics Service, Alfa-Bank Ukraine

Over the first quarter of 2021, industrial output was still 2% down. This, along with a decline in other sectors like construction and transportation, should contribute to a decrease in Ukraine's real GDP of around 1.5% y-o-y in the first quarter. In the second quarter, we expect the low baseline effect to generate an impressive real GDP growth of more than 10% y-o-y.

**Retail sales strong in March.** Retail trade turnover growth accelerated to 13.1% y-o-y in March. Here, lower baseline effect has not provided significant impact yet, as March 2020 still posted significant sales volumes, and the slump was evident only in April-May 2020. When recounted for 2 years (to March 2019), growth in retail trade still comes at a strong 20%.

Over 3M21, retail trade turnover increased 7.5%. As usual, Kyiv oblast (the region around the capital) saw the strongest growth, at 14.6%. This reflects massive population build-up around the capital as more people flock to the suburbs of Kyiv, where residential construction activity also has been very strong.

***Retail trade turnover in 2020-2021, % real change y-o-y***



*Sources: State Statistics Service, Alfa-Bank Ukraine*

**Ukraine introduces new restrictions on imports from Belarus, adding more heat to trade tensions.** The latest move introduces a 35% special duty on imports of various vehicles, including buses and trucks. Imports of vehicles are a major item for trade with Belarus (USD 0.2 bln, or around 7% of total in 2020), being the third-largest group of imports after petroleum products and fertilizers.

It is not clear whether there will be any retaliation measures to this strong blow. Ukraine's trade with Belarus is of uneven type: imports are more than double compared to exports. However, Belarus is still a significant market, accounting for 2.7% of

merchandise exports. Key export items to Belarus include food and agriculture products (oilseed feed and soya being the largest), metals, machinery and plastic.

### ***Sovereign debt placement over the week and payment schedule for next week***

	New debt	Payments	
		Amortization	Interest
20 April	UAH 4,527 mln	—	—
21 April	—	UAH 1,100 mln*	UAH 1,465 mln
22 April	—	—	USD 11.6 mln
23 April	—	—	UAH 62.5 mln
27 April	<i>placement:</i> UAH 6M, 12M, 18M, 2Y, 3Y USD 1Y EUR 1Y	—	—
28 April		UAH 11,606 mln	UAH 895 mln

\* paid to the NBU (bonds used to finance Naftogaz in 2014)

Sources: Ministry of Finance, Alfa-Bank Ukraine

### ***Ukraine: key macroeconomic indicators***

	2018	2019	2020	2021f
GDP, UAH bln	3,561	3,978	4,194	4,917
GDP, USD bln	130.7	155.1	154.8	175.6
GDP, % real change	3.4	3.2	-4.0	4.3
Industrial output, % real change	3.0	-0.5	-4.5	1.0
CPI, % average annual change	10.9	7.9	2.7	8.5
CPI, % change Dec/Dec	9.8	4.1	5.0	8.6
Average wage, USD	326	406	430	490
Average wage, % real change	12.5	9.8	7.4	9.0
Consolidated Budget balance, % of GDP	-1.9	-2.1	-5.3	-4.0
Public debt (incl. guarantees), % of GDP	60.9	50.2	60.8	59.0
Net FDI inflow, USD bln	4.5	5.2	-1.0	2.5
Current account balance, % of GDP	-4.9	-2.7	4.0	-0.4
FX reserves, USD bln at year-end	20.8	25.3	29.1	30.2
USD/UAH rate, annual average	27.20	25.85	26.96	28.00
NBU key policy rate, % (annual average)	17.1	17.0	7.9	7.6

Sources: State Statistics Service, National Bank of Ukraine, Ministry of Finance, forecast by Alfa-Bank Ukraine

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