

Latest developments in Ukraine

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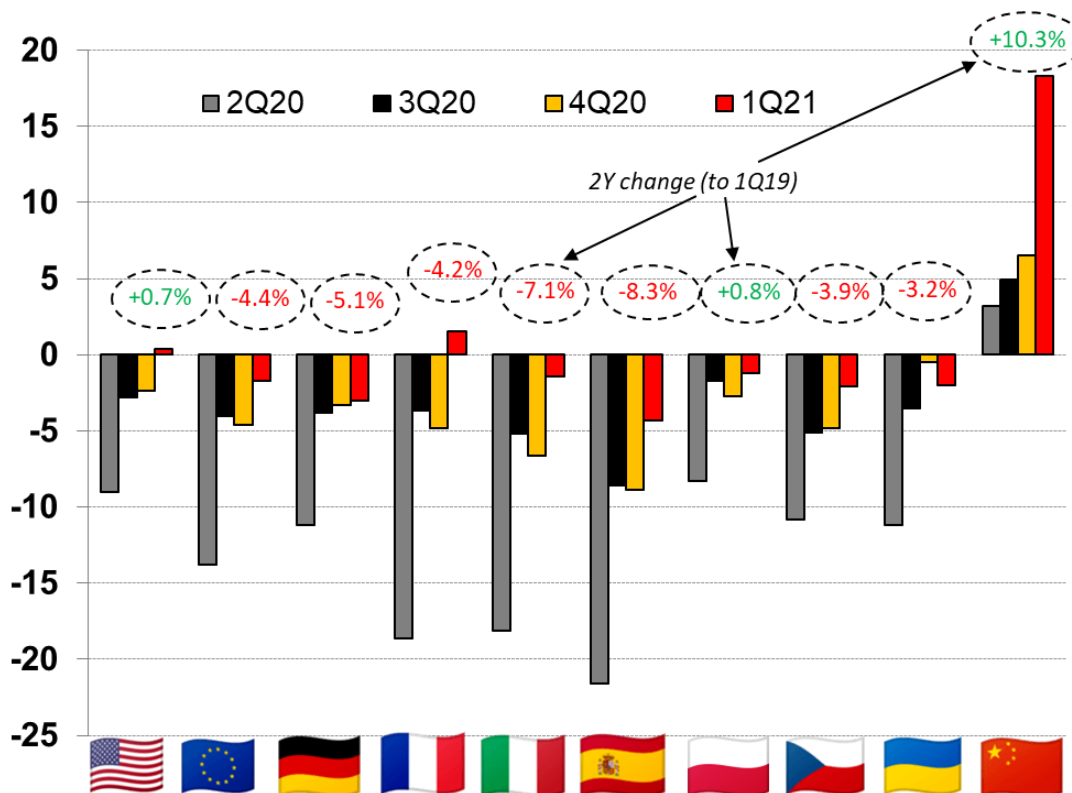


Last week, the Ukrainian FX market was trading in the USD/UAH 27.55-27.75 range, with the hryvnia reclaiming another 0.5% from the greenback over the week. The NBU abstained from the market for the sixth week in a row. The national business schedule now checks against a quarterly corporate profit tax payment period (deadline on 20 May), which usually adds more appreciation pressure on the national currency.

The economy still 3% below 2019. According to the flash estimate by the State Statistics Agency, Ukraine's real GDP was down 2% y-o-y in the first quarter of 2021, practically meaning that recovery paused in early 2021. When converted into a 2-year change rate, this corresponds to a 3.2% decline.

As can be seen from the *chart below*, there are already some economies that can boast renewed growth over 2019, but a tiny one, unlike China. These include Poland and the USA. For Ukraine, we expect growth over 2019 to restart only in the third quarter of 2021.

Real GDP in Ukraine and other countries in 2020-2021, % change y-o-y



Sources: State Statistics Service, national statistics agencies, Alfa-Bank Ukraine

Despite the flash estimate for real GDP decline in the first quarter came worse compared to our expectations (2% vs. 1.6%), this deviation still leaves us with the unchanged growth forecast of 4.3% for 2021.

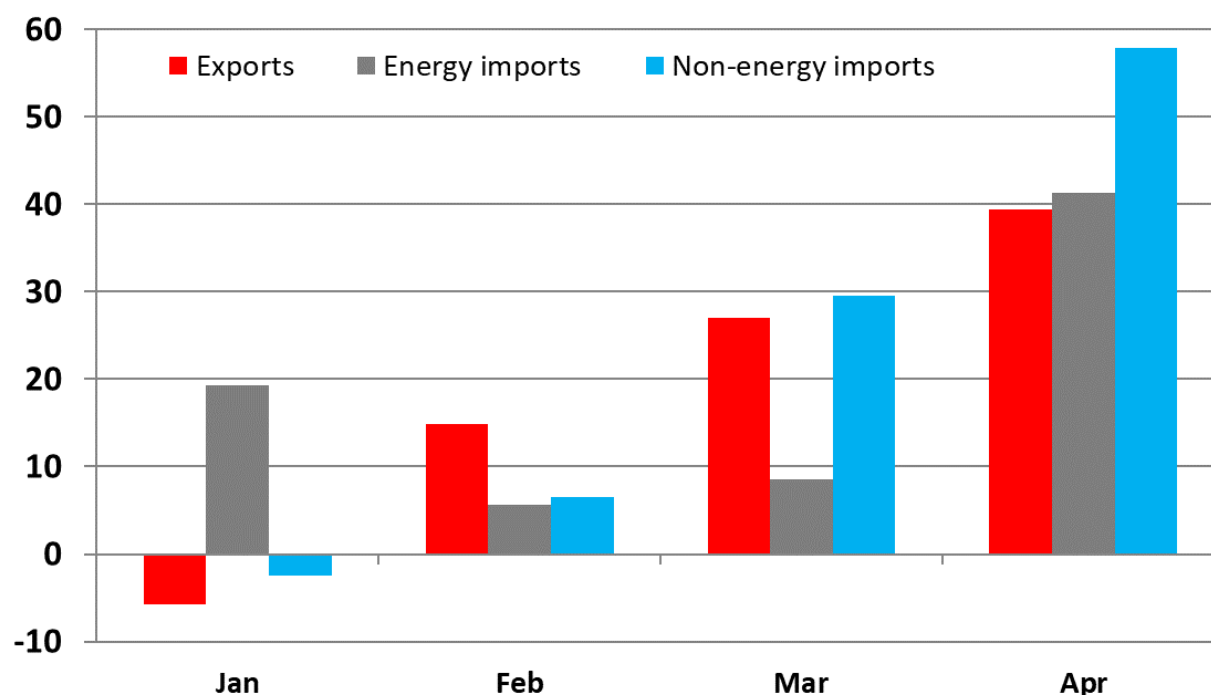
Eurobond placement elevates FX reserves to USD 28 bln, for a moment. In April, Ukraine's international reserves grew USD 1 bln (3.6%) to USD 28 bln. The increase was delivered by the USD 1.25 Eurobond placement (*see our report of 01 May 2021*).

According to our estimates, local FX debt have depleted FX reserves back to USD 27.5 bln since then due to local FX debt payments. The government's FX account should be somewhere in the USD 1.0-1.1 bln range now. Thus, the USD 3.1 bln FX debt peak of September still needs to be refinanced.

Foreign trade recovers over low baseline. Merchandise exports grew to USD 5.37 bln in April, which implies 40% y-o-y growth. While this may be associated with the low baseline effect, it is worth noting that over 2 years exports still grew an impressive 31%. Most of the increase owes to high prices for iron ore and steel.

Merchandise imports in April 2021 amounted to USD 5.33 bln, which means 55% y-o-y growth, even higher than for exports. However, unlike exports, when rebased for April 2019, imports increased only 13%. Unlike exports, the recovery in imports remains broad-based, with many various items contributing to total growth.

Merchandise foreign trade in 2021, % change y-o-y



Sources: State Customs Service, Alfa-Bank Ukraine

CPI growth entrenches at 8.4%, another boost expected in 3Q21. In April, the Consumer Price Index (CPI) added 0.7% m-o-m, cementing annual growth at 8.4% (just in line with our expectations). Some items have started deceleration, softening the general trend. However, we maintain our expectations of CPI growth accelerating to 9-10% in the third quarter of 2021. In particular, price growth for gasoline, housing-related utilities and some basic foodstuffs is expected to remain strong throughout 2021. The recent boost in some global commodity prices feeds into prolonged price

growth. We still view inflationary risks tilted to the upside, providing the case for further prime rate hikes to 8-8.5% per annum.

Inflation in April 2021

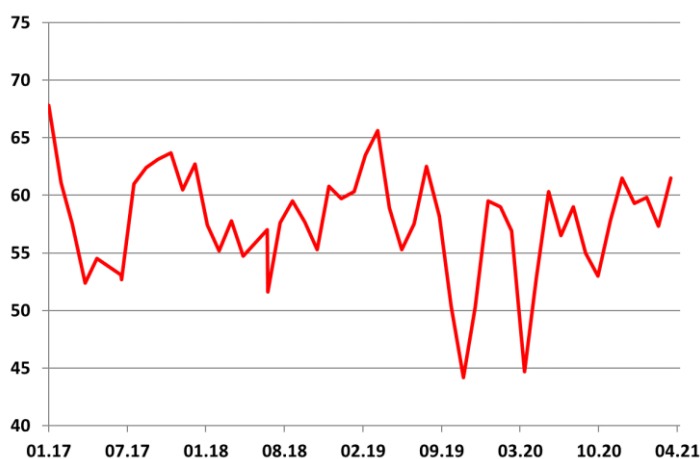
Goods and services	m-o-m price growth, %	m-o-m contrib. to CPI growth, p.p.	y-o-y price growth, %	y-o-y contrib. to CPI growth, p.p.	Recent trend*	Share in CPI basket, %
Foodstuffs, including:	1.2	0.5	9.4	4.1	↑↑	43.3
bread and wheat products	1.6	0.1	13.2	0.9	↑	7.2
meat and products	1.3	0.1	6.6	0.7	↑↑	10.6
eggs	-0.6	-0.0	90.0	0.8	↑↑	0.9
sunflower oil	10.0	0.1	62.9	0.7	↑↑	1.2
fruit	-1.0	-0.0	0.5	0.0	↓↓	2.8
vegetables	-1.3	-0.1	-12.0	-0.5	→	3.9
sugar	5.0	0.0	65.0	0.5	↑	0.7
Tobacco and alcohol	0.9	0.1	9.7	0.8	→	7.9
Clothes and footwear	0.9	0.0	-4.6	-0.2	↓	5.2
Utilities, including:	0.4	0.0	26.5	2.1	↑	7.8
electricity	0.0	0.0	36.6	0.5	→	1.3
natural gas	2.3	0.0	89.9	1.9	↑↑	2.2
Healthcare	0.9	0.1	6.2	0.4	↓	6.6
Transportation, incl.:	0.6	0.1	9.2	1.0	↑↑	10.6
gasoline	0.8	0.0	24.3	0.7	↑↑	2.8
Other	—	-0.1	—	0.2	—	18.6
CPI	0.7	0.7	8.4	8.4	↑	100.0
Core CPI	0.7	—	6.3	—	↑	—

* arrow up means acceleration in y-o-y terms over the last 3 months, arrow down means deceleration

Sources: State Statistics Service, Alfa-Bank Ukraine

Steel output increases amid high prices. According to data by UkrMetalurgProm, total average daily steel output grew 7% m-o-m to 61,500 tonnes in March. In y-o-y terms, that provides a solid 38% growth over very low baseline (*see chart below*).

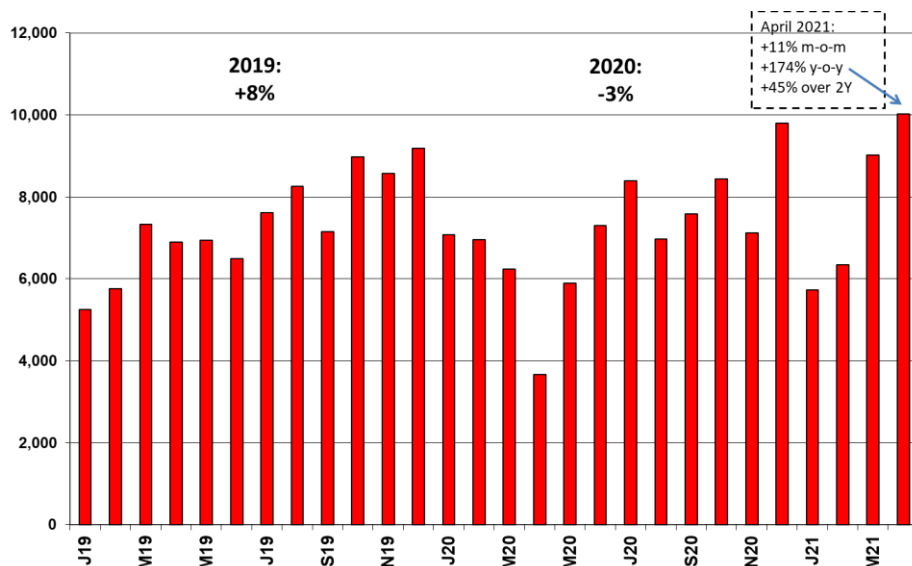
Daily steel output in 2017-2021, '000 tonnes



Sources: UkrMetalurgProm, Alfa-Bank Ukraine

Auto sales peak, boosted by FX sales by individuals. Data compiled by UkrAvtoProm show that 10,022 new cars were registered in Ukraine in April, which is the highest monthly amount for 7 years. Over very low baseline of April 2020, this corresponds to an impressive 174% y-o-y growth. Even when low baseline effect is excluded, compared to April 2019, new car sales were as much as 45% higher. Recent strong car sales data correlate with significant FX sales by individuals seen in March-April.

New car sales in 2019-2021



Sources: UkrAvtoProm, Alfa-Bank Ukraine

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

	New debt	Payments	
		Amortization	Interest
11 May	UAH 1,409 mln	—	UAH 7,767 mln*
12 May	—	—	UAH 1,644 mln
13 May	—	EUR 428 mln	EUR 4.7 mln
17 May	—	—	UAH 758 mln**
18 May	placement: UAH 3M, 12M, 18M, 2Y, 3Y USD 2Y, EUR 1Y	—	—
19 May	—	UAH 12,971 mln	UAH 1,694 mln
20 May	—	—	UAH 196 mln**

* paid completely to the NBU (coupon on CPI-linked bonds at a rate of 10.7% p.a.)

** paid completely to the NBU

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	1.5
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	0.1
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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