

Latest developments in Ukraine

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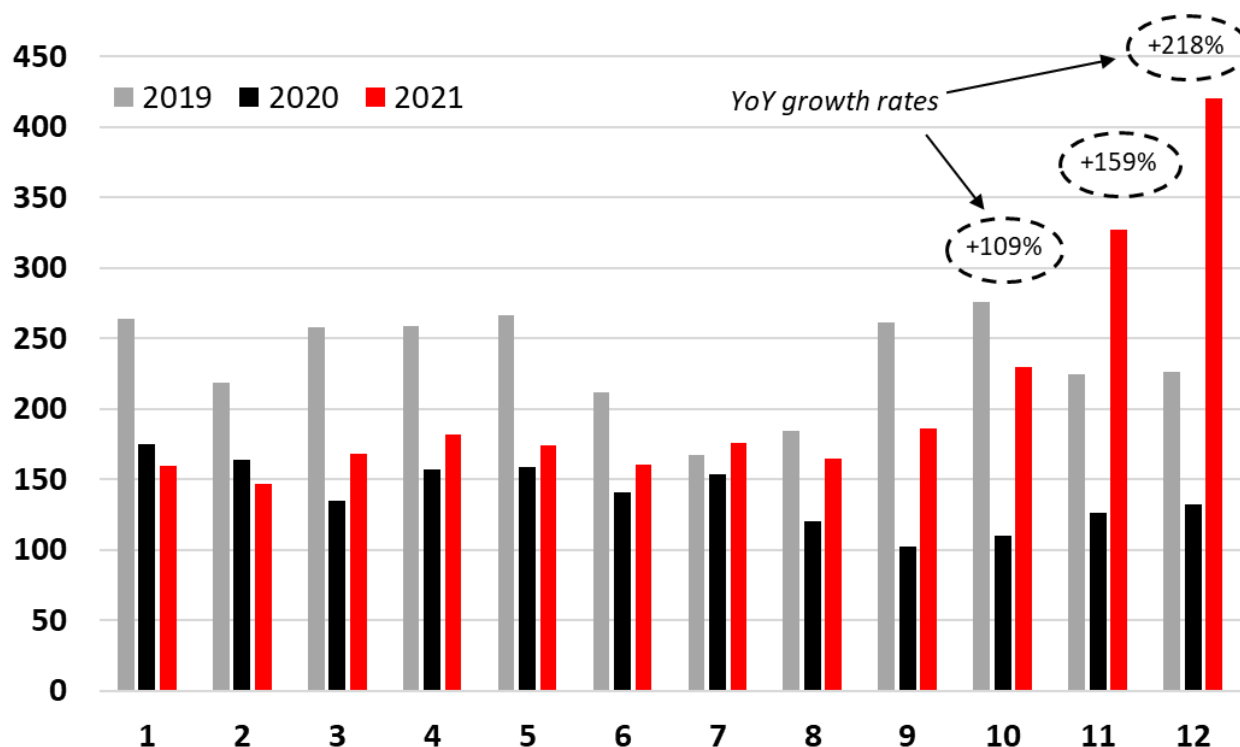
Last week, the Ukrainian FX market was trading in the USD/UAH 27.21-27.55 range, with the hryvnia losing 0.7% to the US dollar over that short inter-holiday week. The NBU sold USD 100 mln that week.

FX reserves end the year just below USD 31 bln. In December, Ukraine's international reserves added another USD 0.3 bln (1.1%), surpassing USD 30.9 bln. This bottom line was defined by massive borrowing on the part of MinFin, totaling almost USD 1.4 bln in December. MinFin was also a heavy FX seller in December, but that had no effect on the reserves, as the NBU purchased all the foreign currency stocks directed at fiscal deficit financing in the last month of 2021.

According to our estimates, Ukraine's international reserves are equivalent to 4.1 months of prospective imports, or 92-96% of the composite ARA adequacy ratio.

Strong foreign trade volumes in December finalize a trade deficit of 1.8% of GDP. Goods exports amounted to USD 6.85 bln in December, with their growth slowing down to 40% YoY. Food&agriculture remained the key driver, adding USD 1.1 bln over December 2020 (up 50% YoY). Merchandise imports in December 2021 amassed USD 7.9 bln, slowing down growth to 37% YoY. In particular, coal imports more than tripled in YoY terms, almost solely due to heavy purchase price increases.

Coal imports by months of 2019-2021, USD mln



Sources: State Customs Service, Alfa-Bank Ukraine

In 2021, merchandise exports grew to USD 68.2 bln (+38%) and imports reached USD 73.3 bln (+36%). According to our estimates, that should correspond to USD 63 bln (+40%) and USD 70 bln (+34%) respectively in the balance of payments (BoP) dataset, with a resulting merchandise trade deficit of almost USD 7 bln, practically the same as in 2020. With regard to a diminishing surplus in services, this should mean a slightly-widened trade deficit of USD 3.5 bln (1.8% of GDP) in 2021.

Inflation continues slowing down. The Consumer Price Index (CPI) grew 0.6% MoM in December, which meant deceleration in YoY terms from 10.3% in November to 10%. The data print is below consensus expectations (10.3%) and that might be due to some price growth in the second half of December being not captured by the CPI survey yet. Anyway, this data print confirms our view that CPI growth is on a slow deceleration path. The data print also supports our expectations that second-round inflationary effects are on the rise, with core CPI growth accelerating further to 7.9% YoY.

Inflation in December 2021

Goods and services	MoM price growth, %	MoM contrib. to CPI growth, p.p.	YoY price growth, %	YoY contrib. to CPI growth, p.p.	Recent trend*	Share in CPI basket, %
Foodstuffs, including:	1.2	0.5	12.7	5.5	↓	43.3
bread and grain products	1.8	0.1	17.3	1.2	↑	7.2
meat and products	0.2	0.0	13.0	1.4	→	10.6
eggs	10.0	0.1	19.0	0.2	↓↓	0.9
sunflower oil	-1.4	-0.0	38.8	0.5	↓↓	1.2
fruit	-3.9	-0.1	-10.2	-0.3	↓	2.8
vegetables	9.1	0.4	12.7	0.5	↑	3.9
sugar	-2.4	-0.0	28.3	0.2	↓↓	0.7
Tobacco and alcohol	0.2	0.0	9.4	0.7	→	7.9
Clothes and footwear	-3.6	-0.2	-3.5	-0.2	→	5.2
Utilities, including:	-0.1	-0.0	9.8	0.8	↓	7.8
electricity	0.0	0.0	26.5	0.4	↓	1.3
natural gas	-0.7	-0.0	15.5	0.3	↓↓	2.2
Healthcare	0.4	0.0	6.1	0.4	→	6.6
Transportation, incl.:	-0.2	-0.0	11.1	1.2	→	10.6
gasoline	-3.0	-0.1	26.5	0.7	↓	2.8
Other	—	0.3	—	1.6	—	18.6
CPI	0.6	0.6	10.0	10.0	↓	100.0
Core CPI	0.4	—	7.9	—	↑	—

* 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

Inflation cuts the fiscal deficit by more than 2% of GDP. The State Budget for 2021 collected UAH 1,298.5 bln in revenue, 20.7% above the previous year. Originally, the revenue plan was just UAH 1,084 bln. As fiscal overperformance had become obvious, the revenue (and expenditure) plan has been expanded by UAH 122

bln in the course of the year, to UAH 1,207 bln. And even this bloated plan was outperformed by UAH 92 bln, including extra UAH 30 bln for the general fund.

Inflation has been the key reason for this overperformance (please note that inflation measures for imports and some fiscally important sectors have been much higher than the CPI *described above*). According to our calculations, the State Budget had a deficit of just 3% of GDP, a striking contrast to 5.5% announced when it was approved. The Consolidated Budget deficit in 2021 is estimated at 3.3% of GDP.

Steel output dips again. According to a flash estimate by UkrMetalurgProm, total average daily steel output dropped to 54,000 tonnes (a decrease of 6% MoM and 12% YoY). In 2021, steel output still grew a tiny 3.3%. There is a significant uncertainty on whereabouts of the global steel market balance in 2022.

More than 100,000 new cars sold in 2021. According to UkrAvtoProm, 10,503 new cars were registered in Ukraine in December, which means an increase of 21% MoM and 7% YoY. In 2021, over 103,000 cars were sold, the highest since 2013 (at that time, 200,000+ was the national standard).

B2B segments of the market also performed well in 2021. Sales of new commercial vehicles increased 37%, and so did the sales of buses and minibuses.

Recent sovereign debt operations and upcoming payments schedule

	New debt	Payments	
		<i>Amortization</i>	<i>Interest</i>
05 January	—	UAH 10,970 mln	UAH 1,260 mln
11 January	<i>placement:</i> UAH 3M, 12M, 18M, 2Y, 3Y, 4Y	—	—
12 January		—	UAH 224 mln*
13 January		USD 177 mln	USD 9.6 mln
18 January	<i>placement:</i> UAH 6M, 12M, 18M, 2Y, 3Y, 5Y USD 12M	—	—
19 January		UAH 2,500 mln*	UAH 1,407 mln

* *paid to the NBU*

Sources: Ministry of Finance, Alfa-Bank Ukraine

Prices for key commodities, % change

	over the week	YtD	YoY
Steel	-1	-1	1
Iron ore	5	12	-25
Corn	0	0	15
Wheat	0	0	21
Sunflower oil	1	1	6
Crude oil	3	5	47
Thermal coal	17	2	111
Natural gas	20	9	294
Bottom line: change in terms of trade	NEGATIVE	NEUTRAL	NEGATIVE

Sources: Bloomberg, APK-Inform, UkrPromZovnishExpertiza, Alfa-Bank Ukraine

Ukraine: key macroeconomic indicators

	2019	2020	2021e	2022f
GDP, UAH bln	3,977	4,192	5,185	5,807
GDP, USD bln	155.0	154.7	190.0	205.6
GDP, % real change	3.2	-4.0	3.0	3.4
Industrial output, % real change	-0.5	-4.5	1.2	3.0
CPI, % average annual change	7.9	2.7	9.4	8.4
CPI, % change Dec/Dec	4.1	5.0	10.0	7.5
Average wage, USD	406	430	513	565
Average wage, % real change	9.8	7.4	10.2	5.3
Consolidated Budget balance, % of GDP	-2.1	-5.4	-3.3	-3.5
Public debt (incl. guarantees), % of GDP	50.2	60.9	51.3	52.5
Net FDI inflow, USD bln	5.2	-0.1	6.0	4.0
Current account balance, % of GDP	-2.7	3.4	-1.2	-4.0
FX reserves, USD bln at year-end	25.3	29.1	30.9	29.0
USD/UAH rate, annual average	25.85	26.96	27.29	28.25
NBU key policy rate, % (annual average)	17.0	7.9	7.5	9.5

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

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