

Latest developments in Ukraine

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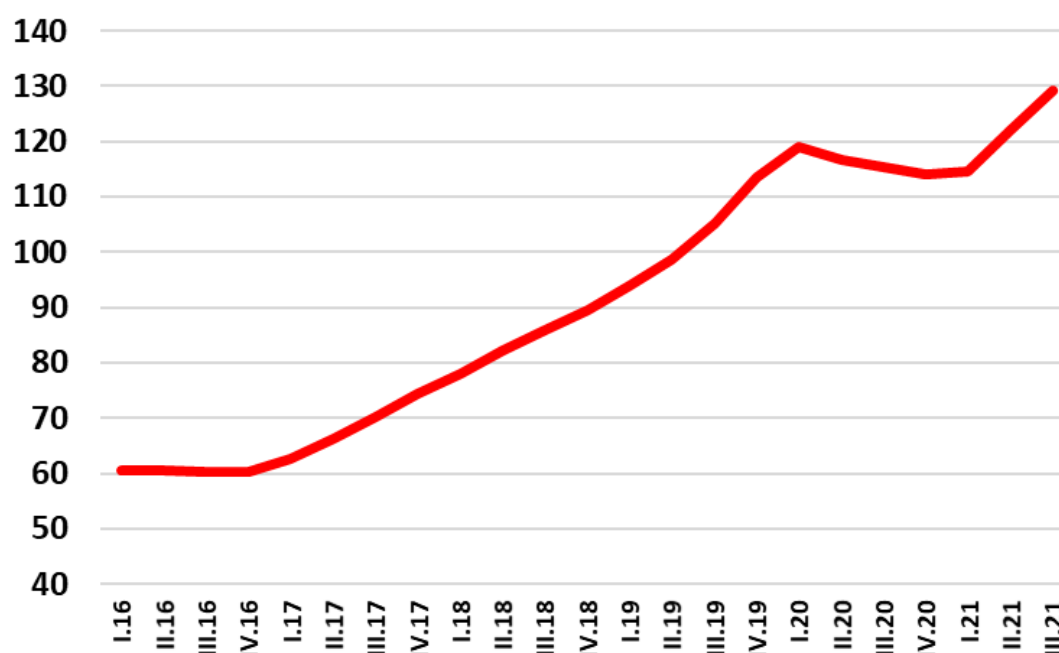
Last week, the Ukrainian FX market was trading in the USD/UAH 26.85-27.29 range, with the hryvnia losing 0.9% to the greenback over the week. The NBU sold a net of USD 122.5 mln that week. This week, the market has been rather calm, trading around USD/UAH 27.20 on Thursday as this report is prepared. However, end-year massive offloading of cash from government accounts has not started yet. That might cause some (not dramatic) market turbulence, as even minor amounts of that cash flood might generate significant additional FX demand.

Household consumption remains key growth driver. The State Statistics Service published full GDP data for the third quarter of 2021. Real GDP growth estimate was improved by 0.3 p.p. to 2.7% YoY. This means Ukraine's economy grew 2.2% over 9 months of 2021.

This meagre growth rate was accompanied by 25.5% growth in GDP deflator in 3Q21, which inflated quarterly GDP to a record-high of USD 55.7 bln. The strongest inflation was concentrated in external sector: high commodity prices shaped growth of deflator for exports in 3Q21 at 57.5% YoY.

In contrast, household consumption continued its fast expansion, growing 9% YoY in real terms. In nominal terms, household consumption grew 21% YoY. Over 5 years, Ukrainians increased their consumption by 46% in real terms and more than doubled it in USD terms. Household consumption now accounts for 3/4 of Ukraine's GDP.

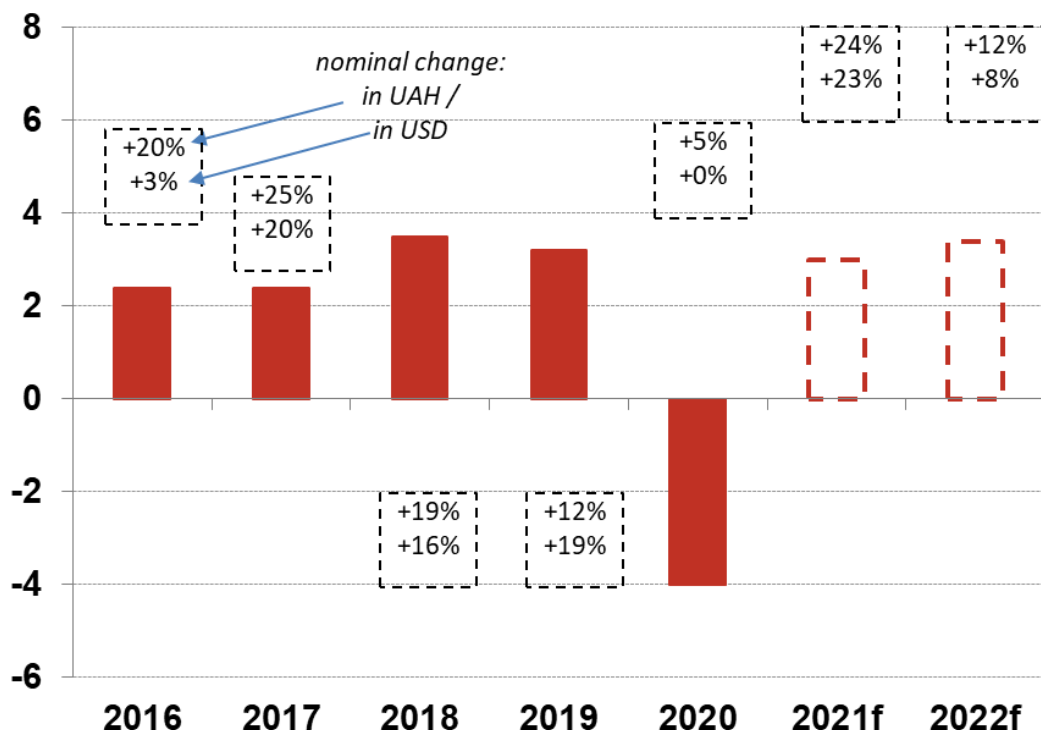
Household consumption (annual sliding) in 2016-2021, USD bln



Sources: State Statistics Service, Alfa-Bank Ukraine

We maintain our forecast for real GDP growth of 3% in 2021 and 3.4% in 2022. At the same time, we have elevated our nominal GDP estimates with regard to higher inflation (mostly non-consumer inflation). We estimate Ukraine's GDP in 2021 at USD 190 bln and expect it to surpass USD 205 bln in 2022.

GDP in 2016-2022, % real change



Sources: State Statistics Service, Alfa-Bank Ukraine

Industrial output growth still oscillates around zero. In November, industrial output grew a mere 0.4% YoY. This time, weather was rather soft (unlike in cold October), which brought energy sector output diving 6.4% YoY. Sector-wise, performance remained mixed. Pharmaceutical manufacturing grew 14.2% YoY, chemical output rebounded to 8.5% YoY growth (fertilizers still in decline). Over 11 months of 2021, industrial output grew 1.3%.

Retail sector follows its vibrant growth trend. Retail trade turnover growth amounted to 5.8% y-o-y in November. Over 11M21, retail trade turnover grew 11.2%. Among regions with relatively high sales volumes, the strongest growth was registered for Odesa (+12.6%), Poltava (+17.5%) and Lviv (+18.1%). In contrast, Kharkiv region had the slowest growth rate in retail sales, just at 1.7%.

Plenty late crops send agricultural output skyrocketing in 4Q21. In November, agricultural output grew 54% YoY. As in October, this super-strong increase was composed of: (1) record-high harvest; (2) low baseline of late crop yields in 2020; and (3) shift of the agricultural season to later periods compared to 2020. Ukraine posted twin record-highs this year: grain harvest estimated at 84.5 mln tonnes and oilseed harvest at 22.6 mln tonnes (*see table overleaf*). Agricultural output growth over 11M2021 stood at 16.7%.

Harvest of major crops in Ukraine in 2015-2021, mln tonnes

	2015	2016	2017	2018	2019	2020	2021e	% chg.
Wheat	26.5	26.0	26.2	24.6	28.3	24.9	32.4	+30%
Barley	8.3	9.4	8.3	7.3	8.9	7.6	9.9	+29%
Corn	23.3	28.1	24.7	35.8	35.9	30.3	40.0	+32%
GRAINS	60.1	66.1	61.9	70.1	75.1	64.9	84.5	+30%
Sunflower	11.2	13.6	12.2	14.2	15.3	13.1	16.3	+24%
Rape	1.7	1.2	2.2	2.8	3.3	2.6	2.9	+14%
Soya	3.9	4.3	3.9	4.5	3.7	2.8	3.4	+23%
OILSEEDS	16.8	19.1	18.3	21.4	22.2	18.5	22.6	+23%
Sugar beet	10.3	14.0	14.9	14.0	10.2	9.2	10.6	+16%

Sources: State Statistics Service, Ministry for Food and Agriculture, Alfa-Bank Ukraine

Economy-related legislation voted in Verkhovna Rada over the week

Draft Law No.	Content	Status
2064	Sets 25 years as minimal time for land use under vineyards	Approved
3474	Lifts requirements on physical license control labels on intellectual property products (disks with music, computer programs, etc.)	Approved
3739	Amendments to legislation on public procurement (provides localization requirements for certain types of machines and equipment purchased with public funds)	Approved
3790	Amendments to legislation on extraction industries transparency	Approved
4220	Amendments to bankruptcy procedures (regarding quarantine)	Approved
5065	On financial services and financial companies	Approved
5376	Provides special taxation regime for IT companies and employees under Diya City project	Approved
5572	On collective management of copyright and related rights	Approved
5688	On tax privileges for industrial parks	1st reading passed
5689		1st reading passed
5865	Amendments to legislation on stock market regulation	1st reading passed
5877	Increases fines and other sanctions for unauthorized construction	1st reading passed
5891-1*	Expansion of the State Budget for 2021 (+UAH 2.4 bln for coal mines)	1st reading passed
6055	On the National Regulatory Commission for Telecommunications and Postal Services	Approved
6347	Extends insolvency moratorium for coal mines till 2023	Approved

** no prospects as there are no more parliament sessions scheduled in 2021*

Sources: Verkhovna Rada, Alfa-Bank Ukraine

Next update on Ukraine will be distributed on 10-12 January, after a holiday break.



Prices for key commodities, % change

	over 10 days	YtD	YoY
Steel	-2	5	5
Iron ore	7	-28	-27
Corn	0	17	19
Wheat	-1	22	24
Sunflower oil	-4	10	13
Crude oil	0	47	47
Thermal coal	9	113	122
Natural gas	64	735	911
Bottom line: change in terms of trade	NEGATIVE	NEGATIVE	NEGATIVE

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

Recent sovereign debt operations and upcoming payments schedule

	New debt	Payments	
		<i>Amortization</i>	<i>Interest</i>
14 December	UAH 5,846 mln + USD 68.4 mln + EUR 102 mln	—	—
15 December	—	—	UAH 2,842 mln
16 December	—	USD 573 mln	USD 11.5 mln
21 December	UAH 12,264 mln + USD 307 mln	—	—
22 December	—	—	UAH 655 mln
28 December	<i>placement:</i> UAH 3M, 6M, 12M, 18M, 2Y, 3Y, 5Y	—	—
29 December		—	UAH 553 mln
04 January	<i>placement (undefined)</i>	—	—
05 January		UAH 10,970 mln	UAH 1,260 mln
11 January	<i>placement (undefined)</i>	—	—
12 January		—	UAH 224 mln*
13 January		USD 177 mln	USD 9.6 mln

* paid to the NBU

Sources: Ministry of Finance, Alfa-Bank Ukraine

Ukraine: key macroeconomic indicators

	2019	2020	2021f	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	8.6
CPI, % change Dec/Dec	4.1	5.0	10.2	7.5
Average wage, USD	406	430	511	564
Average wage, % real change	9.8	7.4	9.8	5.0
Consolidated Budget balance, % of GDP	-2.1	-5.4	-3.5	-3.5
Public debt (incl. guarantees), % of GDP	50.2	60.9	51.6	52.8
Net FDI inflow, USD bln	5.2	-0.1	6.0	4.0
Current account balance, % of GDP	-2.7	3.4	-1.8	-4.0
FX reserves, USD bln at year-end	25.3	29.1	30.7	28.8
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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