

Latest developments in Ukraine

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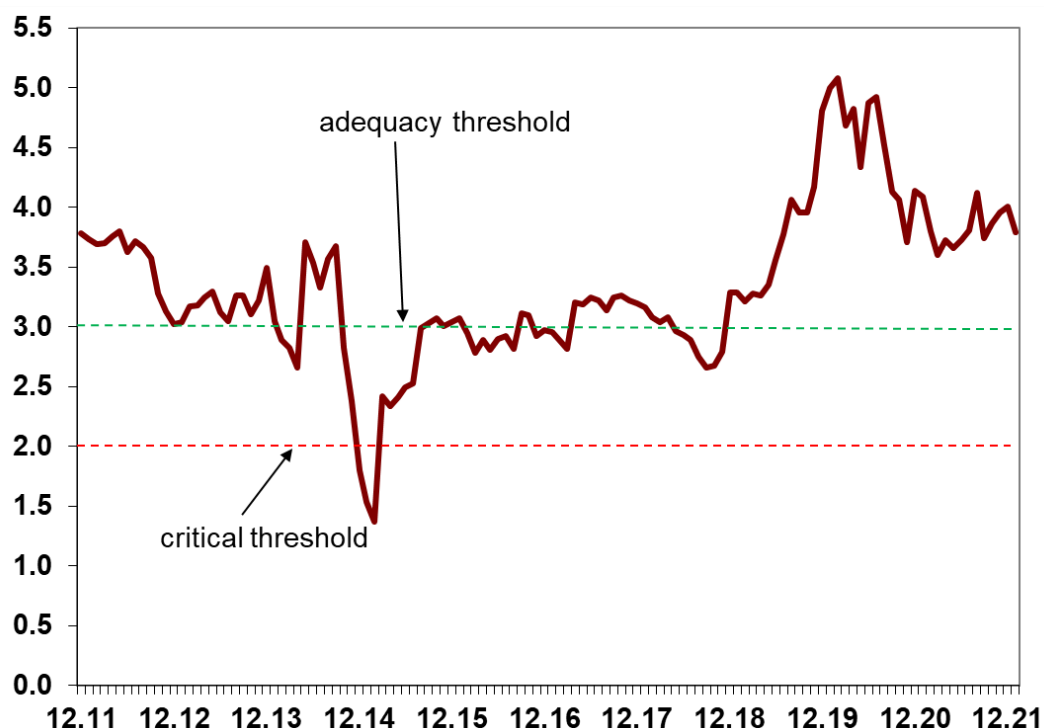


Last week, the Ukrainian FX market was trading in a wide USD/UAH 28.06-28.68 range, with the hryvnia reclaiming 2.05% from the greenback over the week. The NBU purchased USD 333.7 mln that week.

This week, the hryvnia has strengthened further, trading now below USD/UAH 28.00.

FX reserves retreated to USD 29 bln. In January, Ukraine's international reserves dropped USD 1.65 bln (5.3%) to USD 29.3 bln. This was shaped by massive FX sales by the central bank, a net of USD 1.3 bln. That drain has reversed already. According to our estimates, Ukraine's international reserves remain rather strong, equivalent to 3.8 months of prospective imports. Net FX reserves are around USD 19 bln, slightly above their 2021 average value. Loans from IFIs are expected to support reserves even in case of unfavorable markets. We maintain our end-2022 forecast for international reserves at USD 29 bln.

Ukraine's FX reserves in 2011-2022, months of prospective imports



Sources: NBU, Alfa-Bank Ukraine

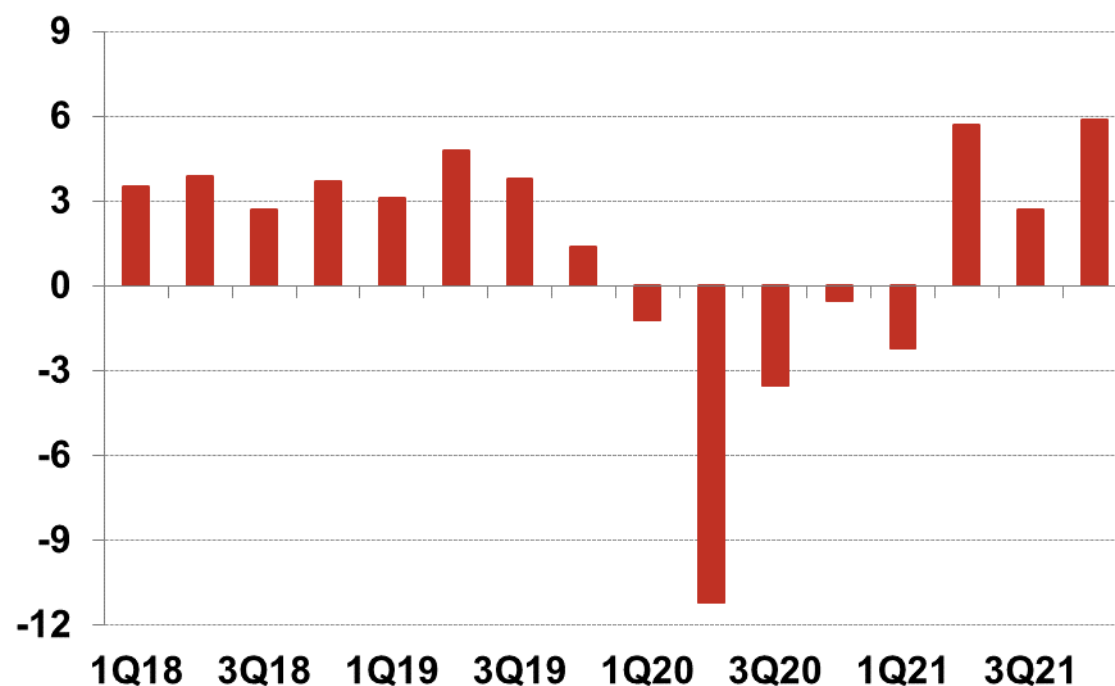
MinFin takes advantage of market volatility, buys back Ukraine-22 bond, more VRIs. The Ministry of Finance reported it has bought back about 10% of the sovereign Eurobond maturing in September 2022, decreasing their remaining par value in circulation to USD 912 mln. According to our estimates, this debt operation

should have saved over USD 15 mln for the State Budget in 2022, including around USD 8 mln as a discount to par value and USD 8 mln in coupon payment cuts.

MinFin also stated it has increased its holdings of Ukraine VRIs to 20%, which suggests another 3-4% bought from the market. This operation is not an immediate bargain, but decreases Ukraine's long-term exposure to economic rebound risk carried by VRIs. Amid recent market turmoil, VRIs traded 65-75 cents per dollar, a significant slump vs. average 2021 price of 108 cents. This comes with the news that there will be a VRI payment in 2023 (*see next story*).

At last, positive GDP surprise in 4Q21. The State Statistics Service published its flash estimate of real GDP growing 5.9% YoY in the fourth quarter of 2021. Obviously, an acceleration had been widely expected in connection to the record-high harvest delayed into October, but it overcame our expectations (4.7%). According to our estimates, this would mean annual GDP growth of 3.3% (the Ministry of Economy estimates it as 3.2%). This brings an effective 1.5-2.5% yield on Ukraine's VRIs in 2023, depending on the final result. Updated and detailed GDP data for 2021 should be published on 11 March.

GDP in 2018-2021, % change YoY



Sources: State Statistics Service, Alfa-Bank Ukraine

Inflation takes a stop at 10% along its slowdown path. The Consumer Price Index (CPI) grew 1.3% MoM in January, which means annual CPI growth stayed at 10% YoY, right where it was in December. This data print is in line with our estimate. The State Statistics Service has updated weights of the CPI basket in line with 2020 consumption shifts. The most striking lockdown-related change here is increased share of medical services vs. decreased share of transportation services. According to our estimates, that had no significant ex post effect on inflation. However, with recent

growth in fuel prices, that might pose a very slight disinflationary effect (not significant). We maintain our end-year CPI growth forecast of 7.5%.

Inflation in January 2022

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:	2.5	1.1	14.0	6.1	→	43.6 (43.3)
bread and grain products	1.3	0.1	17.7	1.3	↑	7.6 (7.2)
meat and products	1.3	0.1	14.2	1.5	↑	10.7 (10.6)
eggs	3.9	0.0	7.1	0.1	↓↓	0.8 (0.9)
sunflower oil	-0.5	-0.0	34.2	0.4	↓↓	1.1 (1.2)
fruit	2.5	0.1	-8.4	-0.3	↓	3.1 (2.8)
vegetables	20.5	0.7	27.5	1.0	↑↑	3.5 (3.9)
sugar	-0.8	-0.0	22.8	0.2	↓↓	0.7 (0.7)
Tobacco and alcohol	0.9	0.1	9.3	0.8	↓	8.2 (7.9)
Clothes and footwear	-5.7	-0.3	-5.3	-0.3	→	5.0 (5.2)
Utilities, including:	0.7	0.1	4.3	0.4	↓↓	8.4 (7.8)
electricity	0.0	0.0	-7.4	-0.1	↓↓	1.6 (1.3)
natural gas	0.1	0.0	21.1	0.5	↓↓	2.3 (2.2)
Healthcare	0.5	0.0	6.2	0.4	→	7.2 (6.6)
Transportation, incl.:	1.3	0.1	11.4	1.1	→	9.3 (10.6)
gasoline	2.6	0.1	26.8	0.7	↓	2.8 (2.8)
Other	—	0.2	—	1.5	—	18.3 (18.6)
CPI	1.3	1.3	10.0	10.0	↓	100.0
Core CPI	0.1	—	7.6	—	→	—

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

** shares applied in 2021 shown in brackets

Sources: State Statistics Service, Alfa-Bank Ukraine

CORRECTION: In our previous report of 02 February 2022, there was a story on foreign trade in February 2022. Unfortunately, that text was produced with 2 errors. In the title of the chart on grain exports, “mln” should read as “bln.” Right below, “7.9” should read as “6.25” (related growth rate and all other statements are correct). We apologize for any confusion caused by these omissions.

Recent sovereign debt operations and upcoming payments schedule

	New debt	Payments	
		Amortization	Interest
01 February	UAH 85.8 mln + USD 4.6 mln	—	USD 33.7 mln
02 February	—	UAH 11,504 mln	UAH 1,980 mln
03 February	—	USD 368 mln	USD 13 mln
04 February	—	SDR 98.5 mln*	SDR 43.2 mln
08 February	UAH 1,801 mln + USD 12.1 mln	—	—
09 February	—	—	UAH 448 mln
15 February	<i>placement:</i> <i>UAH 6M, 12M, 18M, 2Y, 3Y, 4Y</i>	—	—
16 February		—	UAH 930 mln
17 February		EUR 349 mln	EUR 4.4 mln

* paid to the IMF by the NBU (repayment of EFF 2015)

Sources: Ministry of Finance, IMF, Alfa-Bank Ukraine

Prices for key commodities, % change

	over the week	YtD	YoY
Steel	3	10	23
Iron ore	11	29	-6
Corn	0	1	6
Wheat	-3	-4	10
Sunflower oil	-1	4	9
Crude oil	2	19	58
Thermal coal	10	33	182
Natural gas	-8	5	321
Bottom line: change in terms of trade	POSITIVE	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	5,201	5,824
GDP, USD bln	155.0	154.7	190.6	206.1
GDP, % real change	3.2	-4.0	3.3	3.4
Industrial output, % real change	-0.5	-4.5	1.1	2.5
CPI, % average annual change	7.9	2.7	9.4	8.5
CPI, % change Dec/Dec	4.1	5.0	10.0	7.5
Average wage, USD	406	430	514	566
Average wage, % real change	9.8	7.4	10.5	5.3
Consolidated Budget balance, % of GDP	-2.1	-5.4	-3.6	-3.5
Public debt (incl. guarantees), % of GDP	50.2	60.9	51.4	52.6
Net FDI inflow, USD bln	5.2	-0.1	6.0	4.0
Current account balance, % of GDP	-2.7	3.4	-1.1	-3.4
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	9.9

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

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