

Latest developments in Ukraine

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This report was introduced in 2014 as a direct channel for sharing unbiased information and analysis on economic developments in Ukraine. Those were dark days for Ukraine, but now even darker days have been brought upon our country by the very same aggressor. While it is hard to come up with any economic forecasts at the moment as the country suffers increasingly devastating damage to its infrastructure, we continue this report as an uninterrupted media of updating our partners with our take on economic trends and prospects.

As Ukraine's Armed Forces are heroically defending their country against mean and vicious aggression, there are millions of people who provide support for the army, enable humanitarian corridors, volunteer and serve their country in other ways. Uninterrupted banking service is very important these days, as for many temporarily displaced and cut-off access to their account has become the only means for survival.

Alfa-Bank Ukraine has always been, and will be, a genuinely Ukrainian bank. Over 6,000 Ukrainians working in the bank these days defend our country, ensure that all Ukrainians have uninterrupted access to their accounts in the country and abroad, and support the national resistance effort in many ways. We are just one of the many stakeholders contributing to and hoping for Ukraine's victory. Prosperous and peaceful Ukraine is what we all are fighting for.

Financial sector functions despite the war. Since the start of the war, the official exchange rate has been frozen at USD/UAH 29.25 and EUR/UAH 33.17. Exports mostly halted, while imports were reduced to a government-specified list of critical imports, and controls on capital flows were introduced. The NBU balances this reduced market with its interventions. Over the last week, the central bank sold a net of USD 266 mln and EUR 74 mln. Since the start of the war, the NBU has sold a net of USD 424 mln and purchased a net of EUR 54 mln.

The banking sector has remained operational, with banks providing services, limited by national restrictions. Card payments, cash withdrawal and online banking for Ukrainians are available both in Ukraine and abroad, which is critical with millions of refugees.

Ukraine has continued to serve its sovereign debt liabilities operations in full and timely manner. FX liquidity of the government is supported by emergency loans from IFIs, which amounted USD 2.2 bln over the last week. UAH liquidity is being supported by placement of war bonds (1-year local currency bonds with a fixed interest rate of 11%), with the NBU also massively purchasing war bonds.

Business tax relief instituted for the martial law period. Yesterday, the parliament approved the draft law № 7137-d, which prescribes a special economic regime during the martial law period. The key innovation is that all companies with annual turnover of up to UAH 10 bln may now stop paying VAT and corporate profit tax (CPT), switching to a 2% turnover tax. Physically lost goods are not subject to VAT. Reimbursement of VAT for exporters is frozen. Private entrepreneurs (Group 1 and Group 2) are allowed to pay no taxes at all (and they are not expected to pay united social contribution during 1 year after martial law ends). For car fuel, excise tax is zeroed and VAT rate is decreased from 20% to 7%. Also, support of the national war effort is relieved from taxation.

Upward revision of GDP data for 2020-2021. The State Statistics Service reviewed GDP data for 2020 and 2021. In particular, it is now perceived that sectors affected the most by quarantine measures, HoReCa and entertainment, had experienced a much lesser decline than shown previously. Overall, the total real GDP decline indicator for 2020 was trimmed from 4% to 3.8% and the amount of GDP was recounted up by UAH 30 bln (0.7%).

Data for 2021 was also improved. In particular, significant upward revisions were seen for the construction sector. Overall, real GDP grew 3.4% (0.1 p.p. above our expectations). Nominal GDP peaked at UAH 5.460 bln (USD 201 bln).

But all that is in the past now. It is obvious that 2022 will bring a strong plunge for the economy. At this moment, estimates vary in a rather wide 10-30% range, and every day of war increases damage inflicted to the country's economic potential. Up to a third of agricultural lands risk no crops this year. Key production bases of the metals&mining sector are either on the battlefield (Mariupol) or not far from it. Ports and foreign trade are strangled by a naval blockade. The energy sector has suffered many casualties, and the biggest nuclear power plant (Enerhodar) is captured by the enemy. Every day, the nature of the war increasingly turns into total annihilation, making assessment of damage an increasingly lagging exercise.

Extensive after-war reconstruction might trigger a strong recovery later in 2023, providing VRI holders with a chance for hefty payments in 2025. Luckily for Ukraine, the total amount of payments would be still capped at 1% of GDP then (and MinFin accumulated about 20% of VRIs to ease the burden). However, one should not exclude some debt restructuring if recovery burden would be unbearable for Ukraine without enough international support (including when confiscated Russian funds are not enough to cover the bill).

Inflation likely to hit 20% this spring. The Consumer Price Index (CPI) grew 1.6% MoM in February, accelerating annual CPI growth to 10.7% YoY. Most of the price hikes last month were concentrated in fuel and staple foods, the items which have the fastest ignition in times of worries about possible shortages. Obviously, fuel was also affected by logistical issues and skyrocketing crude oil prices.

These developments do not represent the effects of war, which started on 24 February when most price changes had been already fed into CPI calculation. We expect strong

CPI acceleration in the upcoming month, with inflation probably hitting 20% by May. This situation does not have a monetary solution, and does need any monetary effort to be applied under current circumstances. Mass migration would also affect inflation significantly by emerging regional demand-supply disparities.

Inflation in February 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:	2.4	1.0	14.3	6.2	↑	43.6 (43.3)
bread and grain products	2.3	0.2	17.7	1.3	↑	7.6 (7.2)
meat and products	0.9	0.1	13.9	1.5	↑	10.7 (10.6)
eggs	-5.7	-0.0	1.2	0.0	↓↓	0.8 (0.9)
sunflower oil	0.9	0.0	25.8	0.3	↓↓	1.1 (1.2)
fruit	2.6	0.1	-9.2	-0.3	↓	3.1 (2.8)
vegetables	12.1	0.4	34.5	1.2	↑↑	3.5 (3.9)
sugar	-0.4	-0.0	15.9	0.1	↓↓	0.7 (0.7)
Tobacco and alcohol	1.2	0.1	9.2	0.8	↓	8.2 (7.9)
Clothes and footwear	-4.2	-0.2	-5.9	-0.3	↓	5.0 (5.2)
Utilities, including:	0.2	0.0	6.4	0.5	↓	8.4 (7.8)
electricity	0.0	0.0	-7.4	-0.1	↓↓	1.6 (1.3)
natural gas	0.0	0.0	29.6	0.7	↑↑	2.3 (2.2)
Healthcare	1.2	0.1	5.5	0.3	↓	7.2 (6.6)
Transportation, incl.:	3.7	0.3	13.7	1.3	↑	9.3 (10.6)
gasoline	7.9	0.2	27.5	0.8	↓	2.8 (2.8)
Other	—	0.3	—	1.9	—	18.3 (18.6)
CPI	1.6	1.6	10.7	10.7	↑	100.0
Core CPI	1.0	—	8.2	—	↑	—

* arrow up means acceleration in YoY terms over the last 3 months,
arrow down means deceleration

** shares applied in 2021 shown in brackets

Sources: State Statistics Service, Alfa-Bank Ukraine

Recent sovereign debt operations and upcoming payments schedule

	New debt	Payments	
		Amortization	Interest
01 March	UAH 9,034 mln	—	USD 293 mln
02 March	—	—	UAH 3,379 mln
04 March	—	—	UAH 135 mln
08 March	UAH 27,444 mln*	—	—
09 March	—	UAH 17,778 mln	UAH 1,749 mln
10 March	SDR 1,006 mln + EUR 412 mln	EUR 36.3 mln	EUR 0.3 mln
11 March	EUR 300 mln	SDR 296 mln**	—
15 March	UAH 5,570 mln + USD 11.7 mln	—	USD 94.3 mln
16 March	—	SDR 59.7 mln***	UAH 272 mln
18 March	—	SDR 125 mln***	—
22 March	<i>placement:</i> UAH 3M, 6M, 9M, 12M, 2Y, 3Y, 5Y USD 12M	—	—
23 March	—	—	UAH 1,063 mln
25 March	—	—	USD 111 mln
28 March	—	—	UAH 313 mln
29 March	<i>placement:</i> UAH 3M, 6M, 9M, 12M, 18M, 2Y, 3Y, 4Y	—	—
30 March	—	—	UAH 513 mln
31 March	—	—	USD 2.1 mln

* UAH 20,000 bln purchased by the NBU

** paid to the IMF in this proportion: 54% by MinFin and 46% by the NBU

** paid to the IMF by the NBU

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

Ukraine: key macroeconomic indicators

	2019	2020	2021	2022f
GDP, UAH bln	3,977	4,222	5,460	U/R
GDP, USD bln	155.0	155.8	200.9	U/R
GDP, % real change	3.2	-3.8	3.4	U/R
Industrial output, % real change	-0.5	-4.5	1.1	U/R
CPI, % average annual change	7.9	2.7	9.4	U/R
CPI, % change Dec/Dec	4.1	5.0	10.0	U/R
Average wage, USD	406	430	514	U/R
Average wage, % real change	9.8	7.4	10.5	U/R
Consolidated Budget balance, % of GDP	-2.1	-5.3	-3.4	U/R
Public debt (incl. guarantees), % of GDP	50.2	60.4	48.9	U/R
Net FDI inflow, USD bln	5.2	-0.1	6.0	U/R
Current account balance, % of GDP	-2.7	3.4	-1.0	U/R
FX reserves, USD bln at year-end	25.3	29.1	30.9	U/R
USD/UAH rate, annual average	25.85	26.96	27.29	U/R
NBU key policy rate, % (annual average)	17.0	7.9	7.5	U/R

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

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