

Latest developments in Ukraine

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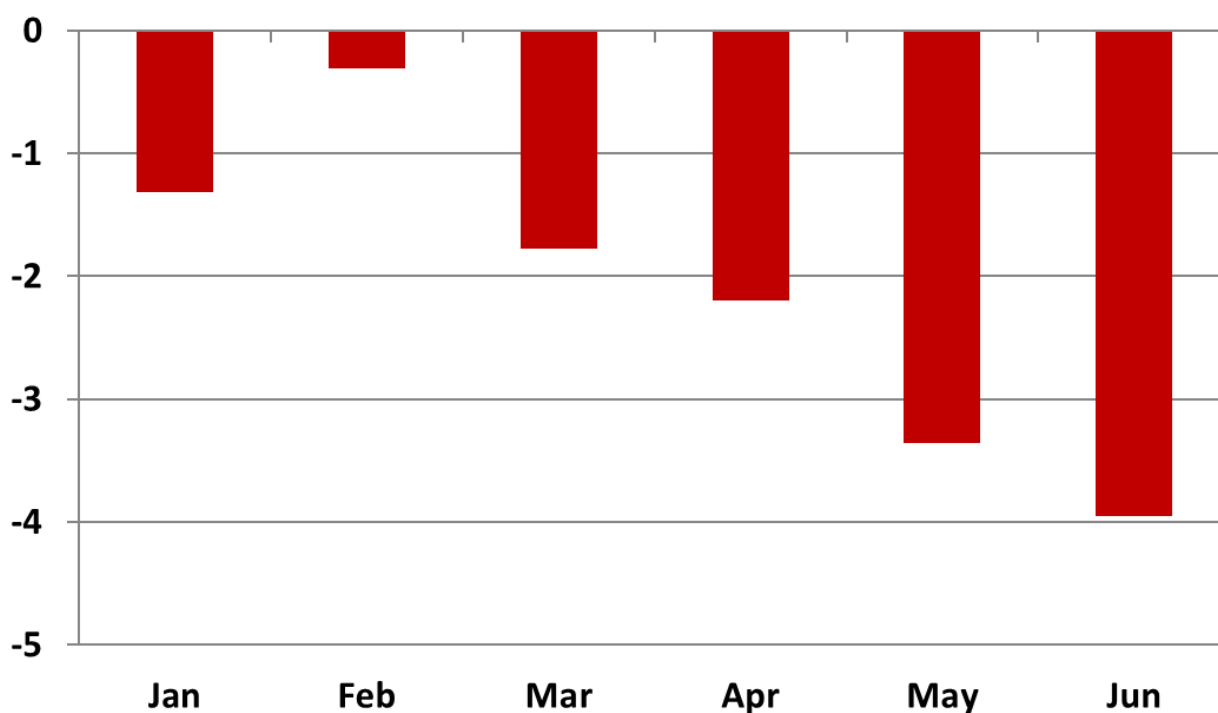
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International inflows increase, enabling better opportunities for FX rate flexibility. In June, Ukraine has managed to double international funds flowing to support the State Budget, from around USD 2 bln monthly to approximately USD 4 bln (actually, EUR 1 bln from Germany came on 1 July, extending good momentum into the next month). Much of new financial assistance comes as grants, not loans (*and thus not all incoming funds are reflected in the public debt table at the end of this report*), which is also a better contribution to macro-financial stability.

This increase in inflows has come handy, as the FX market deficit to be covered by the NBU also expanded to USD 4 bln in June. While the NBU has continued to hold the official FX rate at USD/UAH 29.25, some signs of prospective exchange rate flexibility have appeared. First, the government has expanded the list of critical imports to include even more goods and many intangible service imports, which in fact makes this meaningless in terms of limiting imports that are financed with the “NBU + 1%” exchange rate. Second, the parliament has approved the law that reinstates VAT and duties for imports (*see legislative table at the end of this report*). Third, the government started experimenting with sales of international financial support on the FX market on 30 June, which we for long had expected to be the key measure that alleviates exchange rate flexibility risks. Thus, we see a very high chance that the official USD/UAH rate would be unfrozen this summer.

NBU net FX interventions in 2022, USD bln



Sources: NBU, Alfa-Bank Ukraine

The government accommodates seed money for SMEs. The government has approved UAH 16 bln in seed money distributed as grants for start-ups: private entrepreneurs who employ 1-2 persons and for farmers who seed new fruit and berry plantations, wineries and greenhouses. A total of UAH 16 bln from this year’s State Budget has been earmarked for these projects.

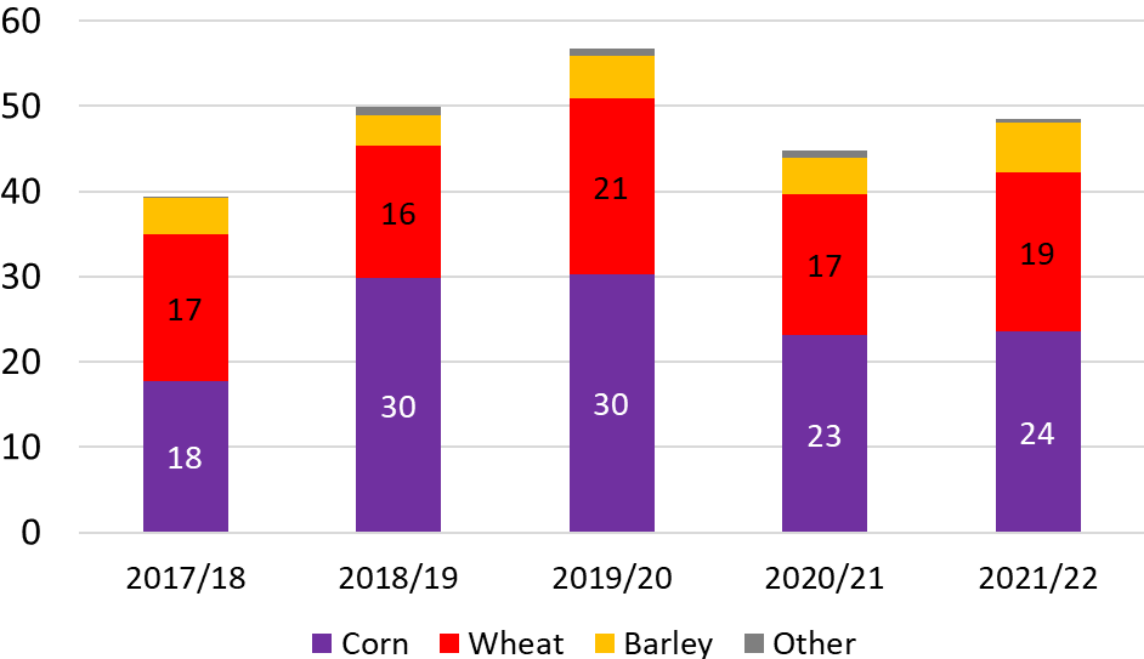
The government also intends to create similar grant projects for the IT sector and manufacturing. The funds should be distributed via state-owned Oschadbank, creating an uncompetitive advantage for this banking sector player.

Ukraine managed to export 48.5 mln of wheat, out of 64 available. In June, agricultural traders struggled to increase grain exports to 1.4 mln tonnes, compared to 1.2 mln exported in May. Amid naval blockade of Ukraine’s sea ports (*please see the recent VoxEU column by Oleksiy Blinov and Simeon Djankov, [Restarting Ukraine’s Agricultural Exports](#)*), this is a strong development, but it still comes at a high price, as many grain hoppers have been stuck at the border.

Overall, Ukraine, managed to export 48.5 mln tonnes of grain in the marketing year 2021/22 (ended in June), a 8.5% increase to the previous year due to record-high harvest and strong exports in autumn-winter. However, if not the war, the country could have exported an additional 15 mln tonnes (including 10 mln tonnes of corn and 5 mln tonnes of wheat).

We maintain our 56 mln tonnes of grain harvest forecast in 2022 (with increase potential, as weather conditions have been favorable). This means that Ukraine has a potential to send up to 60 mln tonnes in marketing year 2022/23, including remaining inventories . With current export capacities, less than a third of that could be exported unless naval blockade is lifted. That is a huge challenge to global food security.

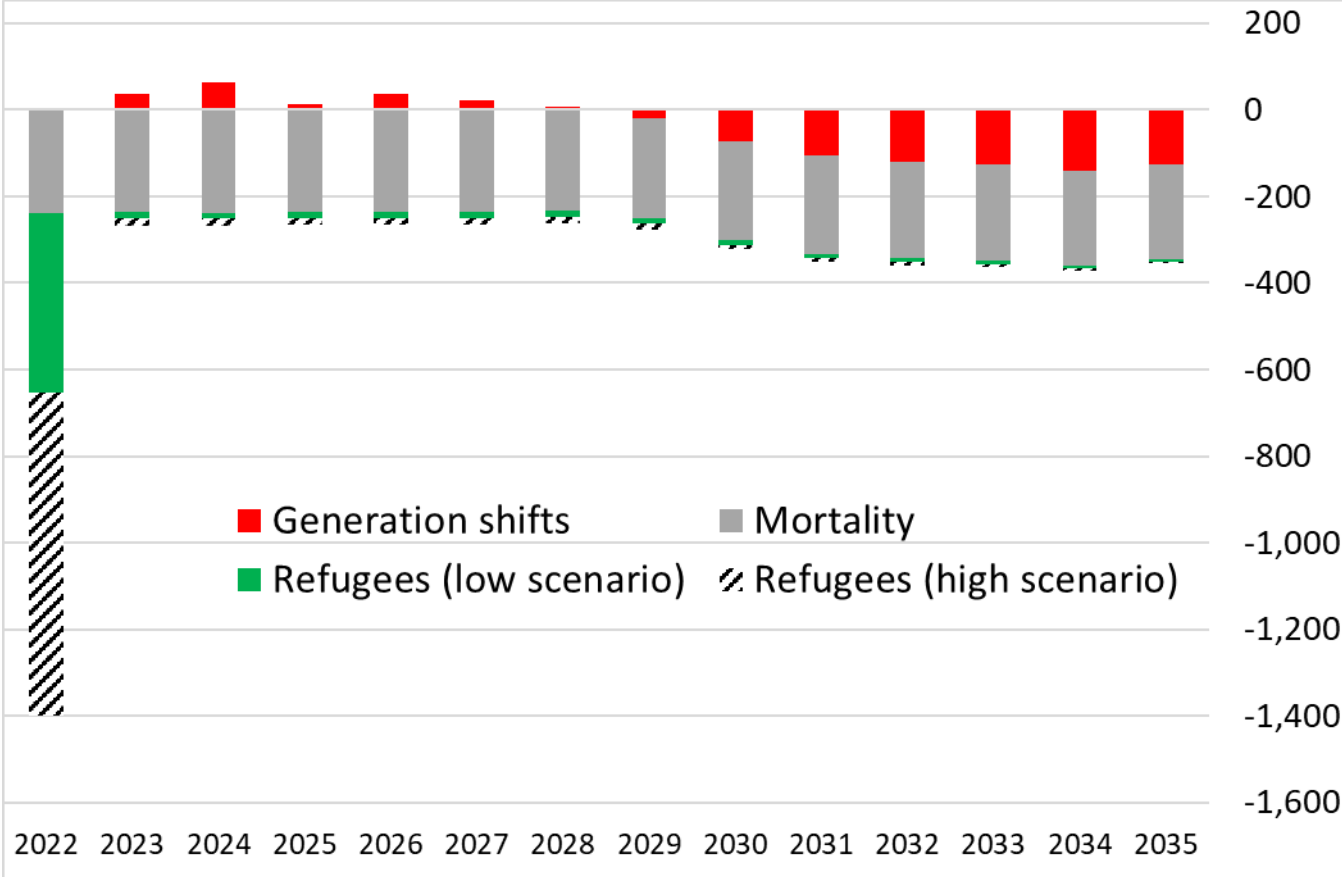
Ukraine’s grain exports over last 5 marketing years, mln tonnes



Sources: State Customs Service, Ministry of Food and Agriculture, Alfa-Bank Ukraine

The war to deepen Ukraine’s demographic crisis. In the recent VoxEU column by Oleksiy Blinov and Simeon Djankov, [Ukraine’s deepening population challenge](#), we estimate the downward demographic trend that Ukraine has been experienced over the last years and additional workforce toll poised by war-induced migration. Ukraine’s workforce is on a clear downsizing path, which means there is a need in an effective policy mix to secure long-term sustainable development after the war.

Annual change in Ukraine’s population aged 15-70, ‘000 people



Sources: State Statistics Service, Alfa-Bank Ukraine

Economy-related legislation voted in Verkhovna Rada over last 3 weeks

Draft Law No.	Content	Status
0093	Ukraine's exit from CIS treaty on development of cellular networks	Approved
0131	Agreement between Ukraine and Tunisia on Cooperation and Mutual Assistance in Customs Matters	Ratified
0132	Convention on the Recognition and Enforcement of Foreign Judgements in Civil or Commercial Matters	Ratified
0147	Ukraine's exit from CIS treaty on development of SMEs	Approved
0155	Agreement with the UK on temporary elimination of customs duties	Ratified
2207-1-d	On waste management	Approved
4279	Correction to the recent law that increased value of untaxed international parcels from EUR 100 to EUR 150	Corrected
5552-1	Amendments to legislation on copyright and related rights	1st reading passed
5616	On protection of geographical indications in food&agriculture	1st reading passed
5650	Amendments to legislation on forestry	Approved
5688	On vast tax privileges for industrial parks	Approved
5689		Approved
6244	Relieves SME groups from mandatory IFRS financial reports	1st reading passed
6287	State subsidies for sales of Ukrainian books	Approved
6464	On intellectual property rights protection (EU integration)	1st reading passed
7251	Fast-track termination of labor contracts during martial law	Approved
7328	Amendments to public procurement appeal procedures	Approved
7398	Sets bomb shelters as a key requirement for real estate construction	Approved
7418	Restores VAT and duties on imports	Approved
7420	Implements EU NCTS customs rules	1st reading passed
7426	Eases rules on fiscal spending during martial law	1st reading passed
7427	Reiterates moratorium on household tariff increases for natural gas and heating during martial law and 6 months after it ends, approves public debt coverage of respective financial gaps	1st reading passed
7428-2		1st reading passed
7429		1st reading passed
7432	Exempts military personnel from defense payroll tax (1.5%)	Approved
7451	Amendments to legislation on privatization during martial law	1st reading passed
7459	Bans imports and sales of books from Belarus and Russia	Approved

Sources: Verkhovna Rada, Alfa-Bank Ukraine

Recent sovereign debt operations and upcoming payments schedule

	New debt	Payments	
		Amortization	Interest
07 June	UAH 856 mln	—	—
08 June	—	—	UAH 1,065 mln
09 June	UAH 70,000 mln*	EUR 131.7 mln	EUR 1.6 mln
14 June	UAH 3,841 mln + EUR 54.6 mln	—	—
15 June	—	UAH 18,161 mln	UAH 3,108 mln
17 June	CAD 1,000 mln	—	—
20 June	—	SDR 125 mln**	EUR 67.5 mln
21 June	UAH 1,212 mln + USD 223.6 mln	—	—
22 June	UAH 35,000 mln*	—	UAH 1,864 mln
23 June	—	USD 517 mln	USD 6.5 mln
27 June	JPY 65 bln	—	—
28 June	UAH 356 mln + USD 60.4 mln	—	—
29 June	—	UAH 5,213 mln	UAH 553 mln
30 June	EUR 447 mln	—	—
05 July	<i>placement</i>	—	—
06 July		—	UAH 309 mln
12 July	<i>placement</i>	—	—
13 July		UAH 2,640 mln	UAH 224 mln***
14 July		USD 619 mln	USD 11.4 mln
19 July	<i>placement</i>	—	—
20 July		UAH 15,342 mln	UAH 1,282 mln

* *NBU purchase of war bonds*

** *debt to the IMF, paid fully by the NBU*

*** *paid fully to 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	4,680
GDP, USD bln	155.0	155.8	200.9	152
GDP, % real change	3.2	-3.8	3.4	-33
Industrial output, % real change	-0.5	-4.5	1.1	-37
CPI, % average annual change	7.9	2.7	9.4	18
CPI, % change Dec/Dec	4.1	5.0	10.0	21
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	-19.2
Public debt (incl. guarantees), % of GDP	50.2	60.4	48.9	U/R
Net FDI inflow, USD bln	5.2	-0.1	6.7	U/R
Current account balance, % of GDP	-2.7	3.4	-1.3	0.0
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	30.50
NBU key policy rate, % (annual average)	17.0	7.9	7.5	17.7

** NBU official rate, now fixed at USD/UAH 29.25 since 24 February 2022*

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

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