

Latest developments in Ukraine

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31 October 2022



Stable October, but threats to infrastructure and exports re-emerge. Overall, financial situation has been rather stable in October. The government managed to get over USD 4 bln in external fiscal financing, enough to cover its monthly fiscal deficit and support FX reserves on a decent level (*see related story below*). The difference between street FX rates and the official NBU rate has narrowed to 10% and even less, after reaching almost 20% in September. Inflation has accelerated, but there are clear signs of this acceleration losing steam (*see related story below*).

However, two additional threats to the economy resurfaced during the month. First, the aggressor has centered its rocket and other aerial attacks on Ukraine's power grid hubs, instigating major network disruptions that caused extensive electricity blackouts (due to both damages themselves and repair efforts). The resulting blackouts are one of the key risks to macroeconomic forecast for 2022-2023.

Second, Russia announced at the last weekend of October that it withdraws from the UN-sponsored agreement on agricultural commodity exports from Big Odesa ports (Odesa, Chernomorsk, Pivdennyi). As of the time of writing this report, freight ships still continued moving both directions across the Black Sea, so it is not clear whether these threats would indeed undermine Ukraine's agricultural exports. However, direct hazard to any passing ships can not be excluded, which could reduce Ukraine's monthly grain exports from current 4.4 mln tonnes back to 2-2.5 mln tonnes, which is not enough for utilizing national export potential and is very costly for the local farmers because of very high shipping costs for alternative routes.

At this moment, we see no urge to review our macroeconomic forecast for 2023, but the risks remain tilted to the downside.

FX reserves slid down in September, to recover in October. In September, international reserves of the National Bank of Ukraine decreased USD 1.5 bln (6% MoM) to USD 23.9 bln. This weak result was caused by a delay with EU funds being transferred to Ukraine. While a total of EUR 5 bln in loans from the EU was earmarked that month, the actual disbursement of the funds was spread into the fourth quarter of 2022.

In October 2022, we estimate FX reserves to recover back to more than USD 25 bln, i.e. to the level seen at end-August. This should be provided by more than USD 4 bln in external official financing received in October.

Inflation accelerates further. The Consumer Price Index (CPI) added another 1.9% MoM in September, accelerating annual CPI growth further to 24.6% YoY (*see table overleaf*). While there are clear signs for further acceleration, many items have already

seemingly lost much of their steam for price growth. We maintain our end-2022 CPI growth forecast at 28%.

Inflation in September 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:	1.9	0.8	31.7	13.8	↑	43.6
bread and grain products	-0.1	-0.0	36.6	2.8	↑	7.6
meat and products	3.1	0.3	22.0	2.4	↑	10.7
fish and products	3.4	0.1	40.7	1.1	↑	2.8
eggs	22.7	0.2	14.2	0.1	↑↑	0.8
sunflower oil	0.2	0.0	10.1	0.1	↑	1.1
fruit	9.8	0.3	45.9	1.4	↑↑	3.1
vegetables	-10.4	-0.4	84.8	3.0	→	3.5
sugar	3.6	0.0	26.8	0.2	→	0.7
Tobacco and alcohol	1.1	0.1	21.2	1.7	↑	8.2
Clothes and footwear	9.8	0.5	0.1	0.0	↑	5.0
Utilities, including:	0.9	0.1	4.3	0.4	→	8.4
electricity	0.0	0.0	-7.4	-0.1	→	1.6
natural gas	0.0	0.0	1.9	0.0	↓	2.3
Household items	2.8	0.1	24.4	1.1	↑↑	4.5
Healthcare	1.8	0.1	18.6	1.3	↑	7.2
Transportation, incl.:	0.4	0.0	41.1	3.7	→	9.3
gasoline	-1.3	-0.0	66.2	1.8	↓↓	2.8
Other	—	0.2	—	2.6	—	13.8
CPI	1.9	1.9	24.6	24.6	↑	100.0
Core CPI	2.4	—	20.4	—	↑↑	—

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

Sources: State Statistics Service, Alfa-Bank Ukraine

The central bank has maintained its prime rate at 25% per annum and shows some clear determination to maintain this rate until at least early 2023. In fact, NBU's macro forecast repeatedly states that the 25% rate will remain unchanged till the second quarter of 2024, but we still see high probability of some rate cuts in the second half of 2023.

Recent sovereign debt operations and upcoming payments schedule

	New debt	Payments	
		<i>Amortization</i>	<i>Interest</i>
20 September	UAH 281 mln + USD 12.3 mln	SDR 125 mln*	—
21 September	—	—	UAH 1,063 mln
26 September	—	—	UAH 313 mln
27 September	UAH 404 mln + USD 4.7 mln	—	—
28 September	—	—	UAH 1,042 mln
29 September	—	—	USD 2.1 mln
04 October	UAH 45.1 mln	—	—
05 October	—	SDR 61.2 mln*	UAH 383 mln
06 October	—	—	USD 6.5 mln
11 October	UAH 12.1 mln + USD 96.8 mln	—	—
12 October	SDR 1,006 mln + EUR 550 mln	UAH 14,994 mln	UAH 1,642 mln
13 October	—	USD 142 mln	—
17 October	UAH 15,000 mln**	—	—
18 October	UAH 6,173 mln + USD 312 mln + EUR 2,000 mln	—	—
19 October	—	—	UAH 1,439 mln
20 October	—	USD 409 mln	—
21 October	—	—	UAH 62.5 mln
25 October	UAH 1,036 mln + USD 514 mln	—	—
26 October	—	—	UAH 1,140 mln
27 October	—	—	USD 4.1 mln
28 October	—	UAH 785 mln	—
01 November	<i>placement</i>	—	SDR 73.2 mln
02 November		UAH 18,929 mln	UAH 1,924 mln
04 November		—	UAH 203 mln
08 November	<i>placement</i>	—	—
09 November		—	UAH 117 mln
10 November		—	UAH 19,453 mln***
14 November		—	UAH 573 mln****
15 November	<i>placement</i>	—	—
16 November		—	UAH 1,251 mln
17 November		—	UAH 196 mln****

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

** *NBU purchase of war bonds*

*** *coupon on CPI-linked bonds, paid fully to the NBU*

**** *paid fully to the NBU*

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

Economy-related legislation voted in Verkhovna Rada over last 4 weeks

Draft Law No.	Content	Status
0148	Exit from the CIS Convention on Multi-National Companies	Ratified
3361	Introduces business insurance against fire as an alternative to state fire prevention control	Approved
4560	Implements EU rules for auto transportation	1st reading passed
5270	Allows foreigners to acquire e-resident status for entrepreneurship in Ukraine	Approved
6097	Harmonization with EU rules on e-identification	Approved
6101	Amendments to legislation on corporate management of state-owned companies	Approved
6134	On protection of consumer rights	1st reading passed
7508	Enhancement of public-private partnership settings	1st reading passed
7628	On collective agreements	1st reading passed
7636	Restores pre-war settings for agricultural land registers	Approved
7712	Reviews profit calculation rules for 100%-state-owned companies in the energy sector	1st reading passed
7737	On Customs Tariff (adaptation to HS 2022)	Approved
8000	On the State Budget for 2023	1st reading passed
8008	Amendments to legislation on financial monitoring (including higher risk for Russia-related, sanctioned persons, oligarchs)	1st reading passed
8027	Creates a special budget fund (Fund to Eliminate Outcomes from Armed Aggression), which receives cash from sale of nationalized assets and spends on construction and reconstruction of housing, infrastructure, etc.	Approved
8035	Amendments to the Budget Code	1st reading passed
8045	Facilitates privatization of state-owned companies which have tax arrears	1st reading passed
8067	Reforms state-owned nuclear energy company EnergoAtom into a joint stock company	1st reading passed
8069	Updates insolvency procedures for systemically important banks (allowing the government to take over such banks overnight)	Approved
8126	Amendments to the State Budget for 2022 (expenditure plan and deficit increased by another UAH 387 bln, mostly for extra defense spending)	Approved

Sources: Verkhovna Rada, Alfa-Bank Ukraine

Ukraine: key macroeconomic indicators

	2020	2021	2022f	2023f
GDP, UAH bln	4,222	5,460	4,682	6,204
GDP, USD bln	155.8	200.9	144.9	152.6
GDP, % real change	-3.8	3.4	-33.0	6.0
Industrial output, % real change	-4.5	1.9	-37.0	8.0
CPI, % average annual change	2.7	9.4	20.4	18.0
CPI, % change Dec/Dec	5.0	10.0	28.0	16.5
Average wage, USD	430	514	455	421
Average wage, % real change	7.4	10.5	-10.7	-0.6
Consolidated Budget balance, % of GDP	-5.3	-3.4	-20.5	-14.5
Public debt (incl. guarantees), % of GDP	60.4	48.9	91.2	88.6
Net FDI inflow, USD bln	-0.1	6.9	1.1	4.5
Current account balance, % of GDP	3.4	-1.6	5.9	0.8
FX reserves, USD bln at year-end	29.1	30.9	26.4	23.0
USD/UAH rate, annual average	26.96	27.29	32.32	40.65
NBU key policy rate, % (annual average)	7.9	7.5	18.7	23.2

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

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