

Latest developments in Ukraine

Oleksiy Blinov, Head of Research

30 November 2022



As of 1 December 2022, our bank is renamed to Sense Bank, after our popular mobile banking brand used by 2 million clients in Ukraine.

Dark November for the power grid, financial stability maintained. This month, Ukraine faced series of unprecedented attacks on its power infrastructure, with the latest one resulting in nation-wide power blackout on 23-24 November. Systemic electricity shortages are still evident across the country as this report is finalized.

It is obvious that blackouts remain one of the key risks to the economy in 2022-2023. Many businesses have been hastily deploying power generators to ensure uninterrupted service, which is especially important for communications, banking and retail, but that is insufficient to alleviate all GDP losses stemming from systemic power shortage. We maintain our real GDP decline forecast for 2022 at 33% as it has been on the conservative side and should accommodate latest economic losses. At this point, we do not review our 6% economic recovery forecast for 2023, but the risks are tilted to the downside and we do not exclude a downward revision this winter.

Despite all the challenges, the financial sector maintained stable operations throughout November. Once again, Ukrainian banks demonstrated their preparedness for unprecedented challenges, supported by popular embrace of mobile banking technology.

External financing for Ukraine's public finance decreased to less than USD 3 bln in November after over USD 4 bln in October, but still was significant enough to boost international reserves amid low FX debt payments. According to our estimates, FX reserves added more than USD 1 bln in November, recovering to well above USD 26 bln, the level last seen in April 2022.

Despite many worries, Ukraine maintained good pace of exports for agricultural commodities. According to our estimates, 4.4-4.7 mln tonnes of grain was exported in November, which means there was no setback in monthly exports despite some disruptions at the beginning of the month.

Ukrainian Armed Forces expelled invaders from the western part of the Kherson region, including the regional capital. While that should restore some of national GDP, liberated territories have suffered vast infrastructure damage and remain under significant threat of artillery barrage from the other bank of the Dnipro that is still occupied by hostile troops.

Inflation to pause its acceleration in November. The Consumer Price Index (CPI) added another 2.5% MoM in October, accelerating annual CPI growth further to 26.6% YoY (*see table overleaf*). While this data print overshoot our expectations, we maintain our end-2022 CPI growth forecast at 28%. We see that there was an

inflationary offset in November, with MoM inflation falling back below 1% and annual CPI growth this month is estimated roughly the same as it was in October.

We maintain our view that the first quarter of 2023 would be a local breaking point when CPI growth should start subsiding in annual terms. No upward revisions in regulated energy tariffs are expected, while many inflationary boosts of 2022 are expected to lose steam by then.

Inflation in October 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:	4.2	1.8	35.7	15.5	↑	43.6
bread and grain products	0.5	0.0	34.9	2.7	→	7.6
meat and products	3.7	0.4	25.1	2.7	↑	10.7
fish and products	2.9	0.1	44.2	1.2	↑	2.8
eggs	60.5	0.5	81.4	0.7	↑↑	0.8
sunflower oil	0.5	0.0	12.4	0.1	↑	1.1
fruit	4.1	0.1	62.6	1.9	↑↑	3.1
vegetables	7.0	0.2	78.8	2.8	↓	3.5
sugar	1.4	0.0	32.7	0.2	↑	0.7
Tobacco and alcohol	0.9	0.1	21.6	1.8	→	8.2
Clothes and footwear	1.9	0.1	0.8	0.0	↑	5.0
Utilities, including:	0.3	0.0	5.5	0.5	↑	8.4
electricity	0.0	0.0	0.0	0.0	↑	1.6
natural gas	0.0	0.0	-1.3	-0.0	↓	2.3
Household items	1.5	0.1	25.7	1.2	↑	4.5
Healthcare	1.2	0.1	18.8	1.3	↑	7.2
Transportation, incl.:	0.8	0.1	40.7	3.8	→	9.3
gasoline	0.2	0.0	61.9	1.7	↓	2.8
Other	—	0.2	—	2.5	—	13.8
CPI	2.5	2.5	26.6	26.6	↑	100.0
Core CPI	1.9	—	21.5	—	↑↑	—

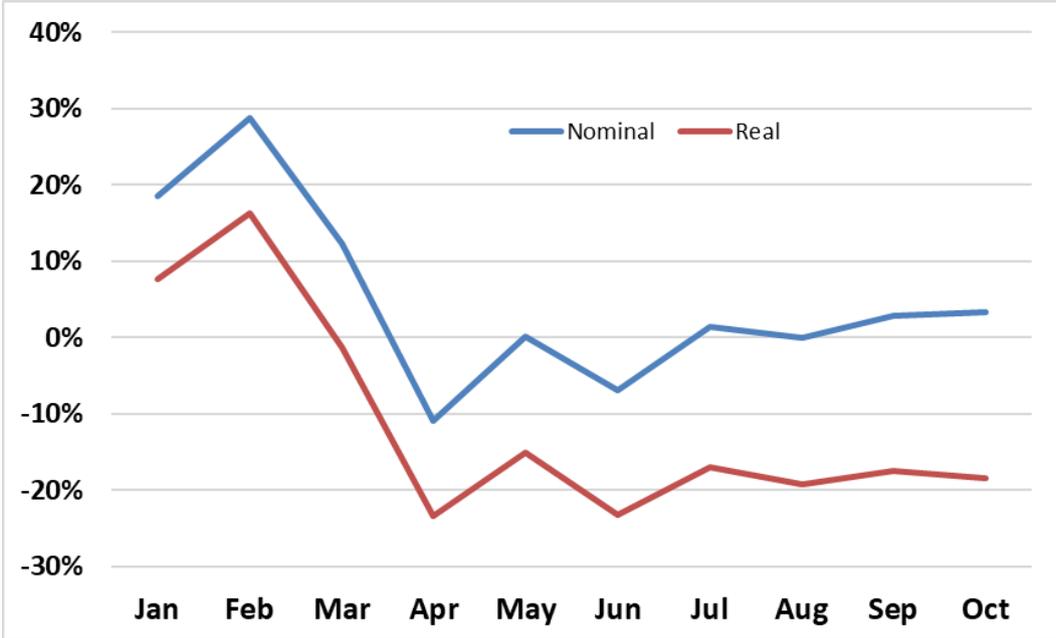
* arrow up means acceleration in YoY terms over the last 3 months,
arrow down means deceleration

Sources: State Statistics Service, Sense Bank

Nominal wages recover above 2021 level, while 13% jobs have been lost and still counting. In a [recent research](#), we have made an attempt to create an *ersatz* for the absence of national labor market statistics during the war using Sense Bank data on payments to hired workers. Our findings confirmed strong payroll volatility in the first months of the war caused by disruption in payments schedules when many companies supported their workers by advance payments in the first weeks of the war, which then turned into a deep payroll drop later in spring. In summer, the trend consolidated and has even improved to a modest 3% YoY nominal wage increase in September-October. However, there has been a striking difference in wage trends for the private and public sector employees in the favor of the latter group.

Overall, nominal wages in Ukraine are estimated to increase 5% YoY over 10 months of 2022. However, rampant inflation resulted in 11% YoY decrease in real wages over the same period. In autumn, real wage decline averaged at 18% YoY.

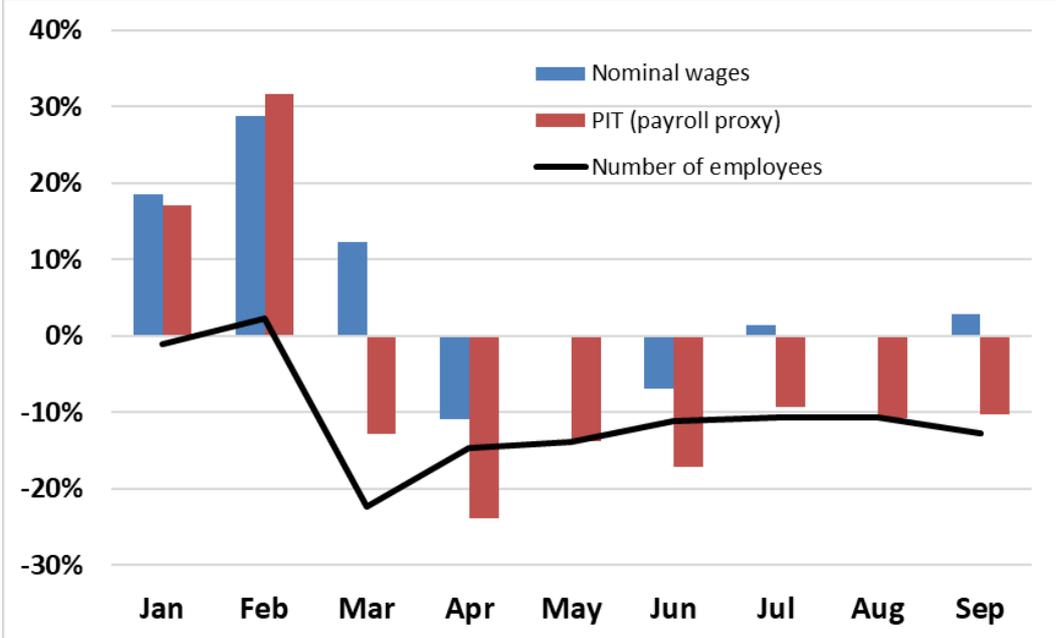
Average wage in Ukraine, YoY change in 2022



Sources: State Statistics Service, authors' calculations based on Sense Bank data

We have compiled our results with fiscal data on personal income tax (PIT) paid by hired workers to the Consolidated Budget of Ukraine to get to job loss estimates. Our estimates show that 13% officially hired employees had lost their jobs and that trend has not shown any signs of recovery yet.

Tax, wages and employment in Ukraine, YoY change in 2022



Source: openbudget.gov.ua, authors' calculations based on Sense Bank data and national fiscal data

Recent sovereign debt operations and upcoming payments schedule

	New debt	Payments	
		Amortization	Interest
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	—
31 October	UAH 10,000 mln*	—	—
01 November	UAH 12,604 mln + USD 38.9 mln	—	SDR 78.1 mln
02 November	—	UAH 18,929 mln	UAH 1,924 mln
04 November	—	—	UAH 203 mln
08 November	UAH 45.3 mln	—	—
09 November	—	—	UAH 117 mln
10 November	—	—	UAH 19,453 mln**
11 November	UAH 15,000 mln*	—	—
14 November	—	—	UAH 573 mln***
15 November	UAH 5,012 mln + USD 7.9 mln	—	—
16 November	—	—	UAH 1,251 mln
17 November	—	—	UAH 196 mln***
21 November	—	—	UAH 552 mln***
22 November	UAH 1,288 mln + EUR 2,500 mln + USD 60 mln	—	UAH 261 mln***
23 November	—	UAH 15,032 mln	UAH 5,092 mln
24 November	UAH 15,000 mln*	—	UAH 506 mln*** + USD 1.9 mln
25 November	—	—	UAH 251 mln***
28 November	—	—	UAH 246 mln***
29 November	UAH 3,987 mln + EUR 459 mln	—	—
30 November	—	—	UAH 1,245 mln
01 December		EUR 495 mln	EUR 6.2 mln
06 December	<i>placement</i>	—	—
07 December		—	UAH 1,065 mln
13 December	<i>placement</i>	—	—
14 December		UAH 14,383 mln	UAH 2,041 mln
15 December		—	EUR 0.7 mln
20 December	<i>placement</i>	SDR 125 mln****	—
21 December		—	UAH 1,864 mln
22 December		USD 351 mln	EUR 9.7 mln
27 December	<i>placement</i>	—	—
28 December		—	UAH 377 mln
29 December		USD 353 mln	—

* *NBU purchase of war bonds*

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

*** *paid fully to the NBU*

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

Sources: Ministry of Finance, IMF, Sense Bank

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

Draft Law No.	Content	Status
0170	Exit from the double tax agreement with Belarus	Ratified
0174	Air Services Agreement between Ukraine and Iceland	Ratified
0175	Air Services Agreement between Ukraine and Saudi Arabia	Ratified
3680-d	Streamlines procedures for certification of seeds	Approved
4353	On postal services	Approved
4482	Streamlines regulations for representative offices of foreign companies	1st reading passed
4558	Amendments to regulations on agricultural chemicals	Approved
4568	Implementation of EU regulations on food packaging	Approved
5839	On state regulation of genetically modified organisms and products	1st reading passed
7492	Lifts personal income taxes for volunteers	Approved
7649	Widens options for voluntary pension contributions	Approved
7655	Changes corporate profit tax rules for foreign currency cash exchange business (introduces monthly advance payment per outlet linked to minimum wage)	Approved
7712	Reviews profit calculation rules for 100%-state-owned companies in the energy sector	Approved
8000	On the State Budget for 2023	Approved
8008	Amendments to legislation on financial monitoring (including higher risk for Russia-related, sanctioned persons, oligarchs)	Approved
8035	Amendments to the Budget Code	Approved
8045	Facilitates privatization of state-owned companies which have tax arrears	Approved
8079	Bans gambling business from simplified taxation regime	1st reading passed
8131	Implementation of the Common Standard on Reporting and Due Diligence for Financial Account Information (CRS)	1st reading passed
8189	President's Decree extending martial law for 90 days (till morning 19 February)	Approved

Sources: Verkhovna Rada, Sense Bank

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	20.2	18.1
CPI, % change Dec/Dec	5.0	10.0	28.0	16.5
Average wage, USD	430	514	448	415
Average wage, % real change	7.4	10.5	-13.9	-0.5
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	26.9	23.5
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 Sense Bank

This report was prepared and issued by Sense Bank. Any information in this report is based on data obtained from public sources considered to be reliable, but no representations or guarantees are made by Sense Bank with regard to the accuracy, completeness or fairness and such information has not been independently audited and verified. The opinions and estimates contained herein constitute our best judgment as of the date of this report, and are subject to change without notice. This report is for information purposes only; it is not intended to be and should not be construed as a business offer or solicitation. Sense Bank, all its offices, employees of shareholders disclaim all responsibility or liability whatsoever for any expense, loss or damages incurred directly or indirectly out of, or in any way connected with, the use of all or any part of this report.