Focus
Ukraine

Scope
Economics

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Macro Review

Gradual Reopening; Shaky Outlook

11 JUNE 2020

READ THE DISCLOSURES SECTION FIRST FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

Contents

Executive Rundown 3

Global economy: Difficult restart 4
- Global economic recovery will be slow and uneven 4
- Energy leads commodity-price recovery in 2H20-2021 5

Economic policy: Hostage of Coronacrisis 7

Public finances: Sustainable despite hit from lockdown 9
- Budget deficit to more than triple in 2020 9
- Domestic investors will support demand for local bonds 10
- IFIs to finance budget deficit and FX redemptions 11

Monetary conditions: Interest rates to continue falling 13
- Key policy rate to decline further in 2020 and then slightly rise in 2021 13
- Bond yield premiums to policy rate should tighten 13
- Bank deposits mostly unaffected by pandemic 14
- Lack of creditworthy corporate borrowers worsens 15
- Consumer lending halted 16

Economy: Gradual recovery ahead 17
- Initial shock to economy is driven by supply side 17
- Recovery will struggle due to depressed demand 18
- Gradual recovery ahead 18
- Rise in unemployment to be relatively moderate 19

Inflation: Slowly rising 21

BoP: Strong C/A gains help offset capital outflows 23
- C/A benefits from demand shock and favourable terms of trade 23
- Net capital inflow to resume in 2021 25
- FX reserves keep growing in 2020-21 25
- Expect mild depreciation of hryvnia in 2H20–2021 26

Yearly forecast 2020–21 28

Quarterly forecast 2020–21 29

Executive Rundown

Economy starts to reopen after two months of strict lockdown. So far, Ukraine's pace of reopening has been gradual, although it is faster than what was expected a month ago. This gives hope for economic recovery through the restart of frozen activities: transport, trade, catering and recreation, and so on. However, in our opinion, losses during the lockdown and the remaining restrictions related to social distancing, along with other factors, will lead to a lower level of potential output after the economy is reopened, slower potential growth compared with the pre-lockdown period, and subdued domestic demand both inside the country and abroad.

Real GDP to fall by 6.7% in 2020 and recover by 5.7% in 2021. Unlike previous crises, this time, the Ukrainian economy is not a poor outlier against peers. On one hand, this was due to structural features of the domestic economy. The services sectors suffered the most from the lockdown, but they represent a relatively low share of GDP. At the same time, the agricultural and IT sectors proved resilient in this crisis. On the other hand, due to the strengthening of macro-financial sustainability in recent years, the Ukrainian economy went into this crisis without significant imbalances. Instead of using resources to extinguish fires, fiscal and monetary stimulus could be counted on for their compensatory effects. Nonetheless, the effectiveness of these measures are much smaller in Ukraine compared with developed countries and some emerging markets.

Inflation to rise gradually and the NBU to stay dovish. End-year CPI of 4.2% in 2020 and 5.3% in 2021 will allow the NBU to continue easing monetary policy. We forecast the central bank will cut its key policy rate to 5.5% by September, and will use liquidity-providing instruments if necessary. Banks will support creditworthy borrowers, but we do not expect a significant increase in lending due to the prudent behavior of banks and a dearth of reliable borrowers. Government initiatives to stimulate lending will have only marginal effects.

Larger stimulus is expected from the budget. We forecast an expansion of the state budget deficit this year to 6% of GDP, slightly lower than plan at 7.5% of GDP due to cutting back on certain expenditures as resources are scarce. The fresh Stand-by Arrangement with the IMF and related financial aid will play an important role in securing budget funding. In addition, we expect the government will return to the Eurobond market as early as 2H2020. We also expect non-residents to start a gradual return to the domestic bond market in 2H2020, which will relax budget constraints. However, the main source of demand for UAH bonds will come from domestic banks, which will reallocate liquidity from NBU CDs and exploit the liquidity the NBU provides them when needed. Despite the sizable increase in the budget deficit this year, public finances appear to be sustainable. We project only a moderate increase in the public debt-to-GDP ratio of up to 57%.

External accounts proved resistant to the coronacrisis. Due to falling prices for oil and natural gas, as well as domestic demand contraction, a sizable current account surplus was created in 4M20. We expect the surplus will amount to around 1% of GDP for the full year. However, against the backdrop of a resumption of domestic demand and an increase in imported energy prices, the surplus will transition to a deficit starting in the fall, and next year the deficit will be 1.2% of GDP. Return to a current account deficit together with the expected cuts in interest rates will cause a moderate weakening of the hryvnia by the end of the year to as much as UAH28–29/USD. In 2021, we do not expect sizable changes in the exchange rate, as the current account deficit will be more than offset by capital inflows under the financial account.

Global economy: Difficult restart

- **Global economic recovery will be slow and uneven**
- **Governments will further increase monetary easing and fiscal support**
- **Inflation may stay subdued in advanced economies (AEs), but may return to pre-COVID-19 levels in emerging markets (EMs) as soon as 2Q–3Q21**
- **After a slump in 1H20, growth in oil and natural gas prices will far outpace that of metals and grains in 2H20–2021**

Global economic recovery will be slow and uneven

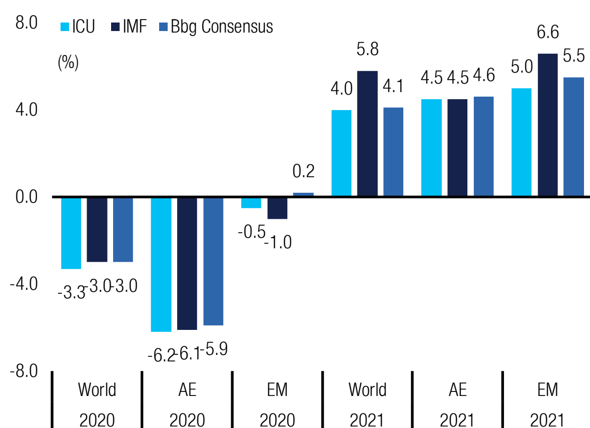
Post-lockdown and post-COVID-19, the global macroeconomic outlook remains highly uncertain because of a possible second wave of the pandemic, reinfection patterns, availability of a vaccine, reopening rules, and fragile consumer and investment confidence.

EU will lag behind other AEs on the recovery path to the disadvantage of Ukraine

GDP recovery will be slow and uneven across the globe. We expect the recovery in most countries will take the “Nike swoosh” shape, and in some cases will be protracted. Ukraine’s key trade partner, the EU, will experience the sharpest drop (-7%) among AEs, and its pre-COVID-19 GDP levels are expected no sooner than in 2023. At the same time, CEE countries, particularly Poland, will recover at a faster pace.

Chart 1. GDP growth (YoY, %)

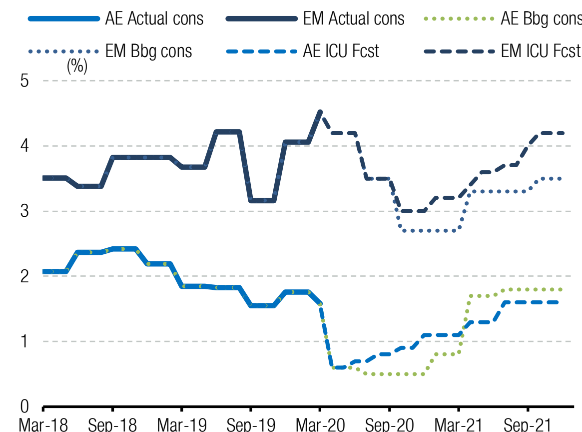
We have a more cautious view on global economic recovery than consensus



Source: Bloomberg, IMF, ICU.

Chart 2. CPI in AEs and EMs (YoY, %)

Unlike AE, EM inflation may return to pre-Covid19 levels as soon as in 2Q-3Q21



Source: Bloomberg, ICU.

In 2020-21, EM central banks will follow AEs in lowering policy rates

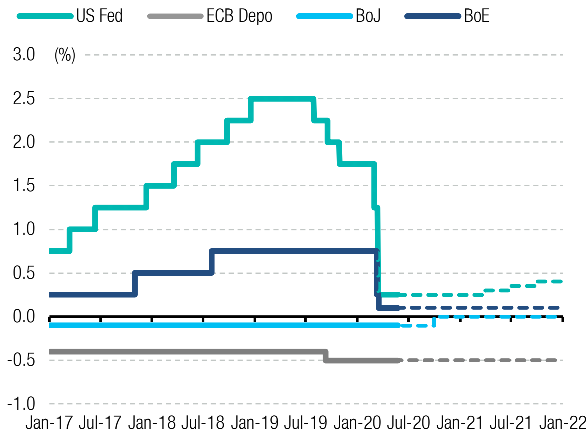
National governments and central banks will pull out all monetary and fiscal policy stops to boost economies out of recession. As AEs’ key policy rates do not have much room to be cut, central banks will engage in more asset purchases and other alternative tools. At the same time, the central banks of EMs will keep lowering rates and apply QE where possible.

EM inflation is likely to return to pre-COVID-19 levels as soon as 2Q–3Q21

Due to the recession and depressed demand, inflation in AEs is likely to stay low (0.5–0.6%) in 2020, and recover to subdued levels (1.6–1.8%) in 2021. Risks are to the upside stemming from a possible fast recovery, lack of fiscal restraint, and higher oil prices. These risks are marginal in 2020, but will grow into 2021. We expect inflation in EM economies to recover after 2Q–3Q20 lows to near pre-COVID-19 levels (3.5–4%) in 2021, subject to upside risks due to weaker EM currencies, rising energy prices, dovish monetary policy, and fiscal imbalances.

Chart 3. AE key policy rates

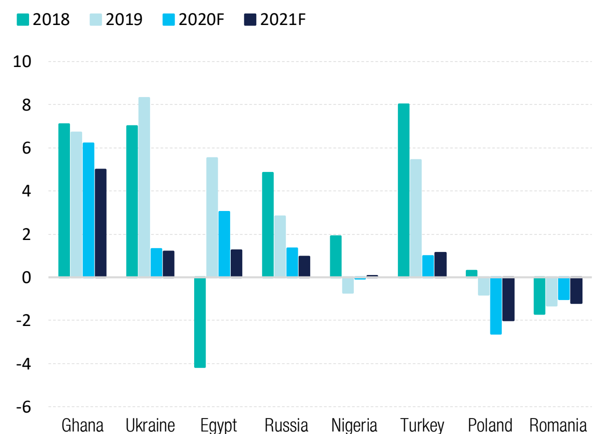
Policy rates in AEs will remain close to or below zero in 2020-21



Source: Bloomberg, Refinitiv, ICU.

Chart 4. EM key policy real rates

EM's CBs will follow AE regulators and cut real rates to near-zero levels



Source: Bloomberg, Refinitiv, ICU.

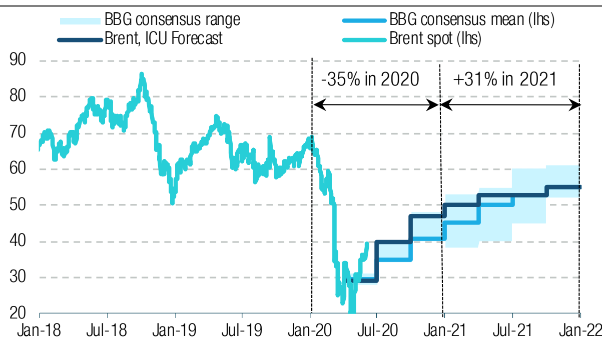
Energy leads commodity-price recovery in 2H20-2021

Prices for oil and natural gas may recover far ahead of the global economy and other commodities

Oil and natural gas may far outpace metals in price recovery starting from 2H20. OPEC+ production cuts and plummeting supply of non-OPEC producers may turn the global oil market from oversupply in 2Q20 to a deficit and send Brent prices into the $40–50 range in 3-4Q20. Lower supplies of Russian pipe gas and US LNG, oil price recovery, and the 4Q20 winter season should trigger a sharp rebound in European natural gas prices. Meanwhile, recovery in European steel prices, if any, should be moderate due to a slow recovery in the EU economy, fragmented supply, high competition, and weakening prices for iron ore.

Chart 5. Oil prices (US$/bbl)

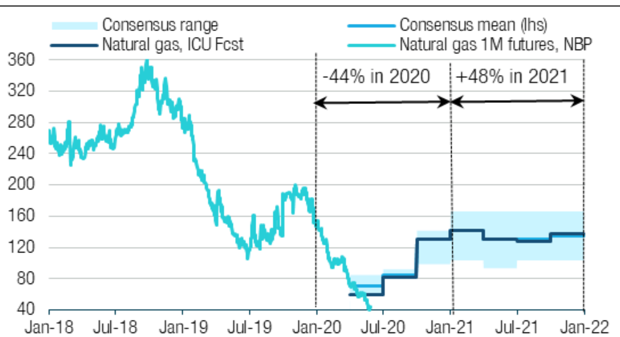
Oil prices are likely to recover far ahead of the global economy due to a sharp decline in supply by both OPEC+ and non-OPEC producers



Source: Bloomberg, Refinitiv, ICU.

Chart 6. Natural gas prices in Europe (US$/tcm)

Sharp rebound in natural gas prices in 2H20 will be triggered by a drop in supplies of Russian pipe gas, US LNG, and by the coming winter season

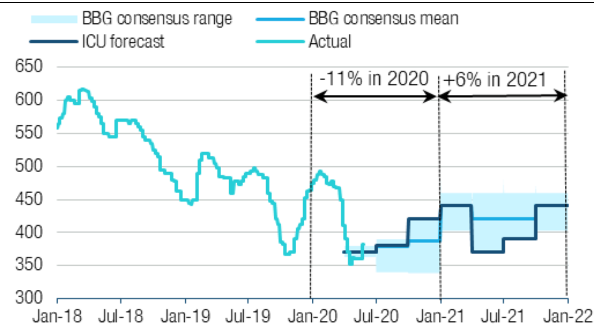


Source: Bloomberg, Refinitiv, ICU.

Prices for Ukraine's key soft commodities, corn and wheat, will be the least sensitive to the pandemic shock and post-pandemic economic recovery. As about 30% of corn in the US are used to produce ethanol, oil-price recovery will positively affect corn prices. Prices for wheat as a staple agri product should stay elevated until most COVID-19 containment measures are lifted, and then decline due to rising stocks and strong supply in the 2020/21 season.

Chart 7. Steel HRC price in Black Sea region (US$/t)

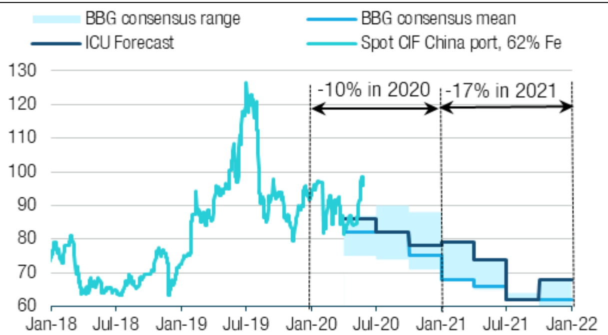
Slow EU recovery, weaker currencies of most key suppliers, and high competition should make European-Mediterranean steel price recovery slow



Source: Bloomberg, Refinitiv, ICU.

Chart 8. Benchmark iron ore prices (US$/t)

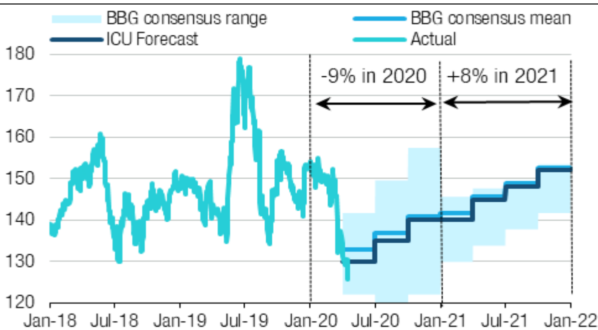
Iron ore prices are set for a gradual decline due to rising seaborne supplies from Brazil, weaker ex-China demand, and slowing China demand



Source: Bloomberg, Refinitiv, ICU.

Chart 9. Corn prices (US$/t)

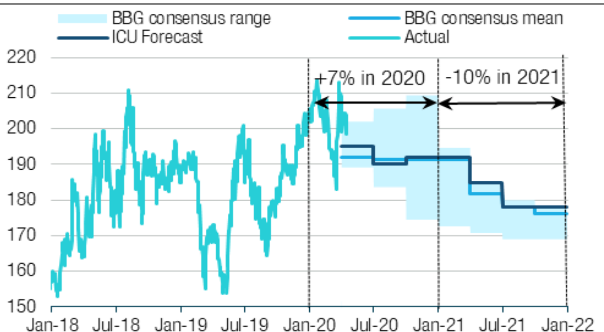
Strong foreign demand for UAH-denominated government bonds helped the hryvnia defy its usual seasonality pattern in 2019



Source: Bloomberg, Refinitiv, ICU.

Chart 10. Wheat prices (US$/t)

Prices for wheat should decline as the post-lockdown wheat market is likely to move into surplus in 2020/21 with strengthening supplies and rising stocks



Source: Bloomberg, Refinitiv, ICU.

Economic policy: Hostage of Coronacrisis

- **Prompt and tough response from new government to pandemic**
- **Lower appetite for growth-friendly structural reforms**
- **Switch to SBA ensures vital official financing**

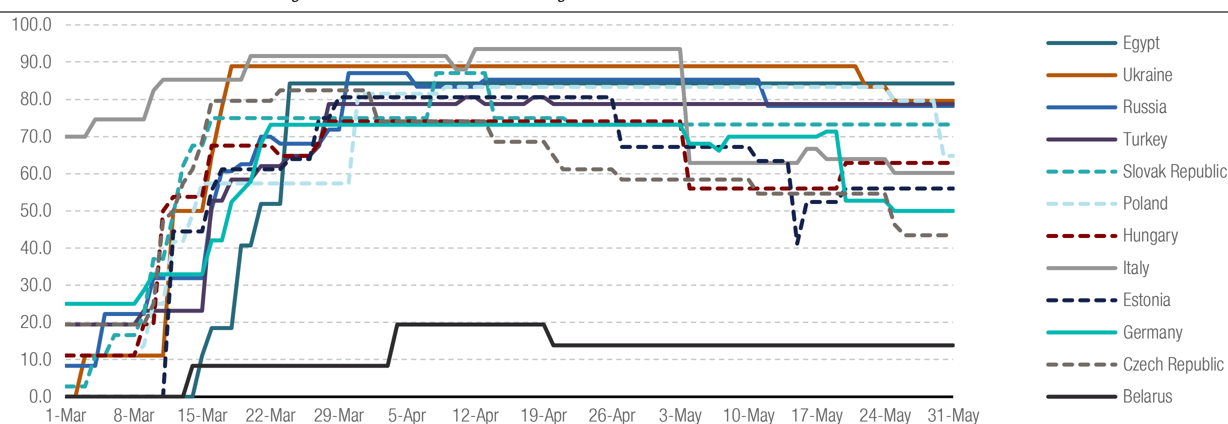
The new government responded to the pandemic promptly with tough and varied restrictions

In early March, Parliament dismissed Goncharuk's government and appointed Denis Shmygal as Prime Minister. He had previously served as Deputy Prime Minister and Minister for Community and Territorial Development. Voting to change the government was quick despite the lack of suitable candidates for several positions. In particular, the Minister of the Economy was appointed two weeks later, and two more key ministers (of Finance and Health) were replaced in three weeks.

The new government immediately faced a serious challenge: determining Ukraine's response to the spread of the coronavirus pandemic around the world and in Ukraine. The government's response was rapid and tough. In mid-March, bans or severe restrictions were put on international travel with some exceptions for the return of Ukrainian citizens, trade in non-essential goods, public transport in cities and intercity, and cultural, sports, and other activities, as well as the work of the HORECA sector except for delivery services and the like. The severity of Ukraine's measures to counter the spread of the coronavirus was the greatest in the region (see Chart 11). To a large extent, the authorities' reaction was a recognition of the limited ability of the medical system to cope with a significant number of patients with the coronavirus.

Chart 11. COVID-19 government response stringency indexes in selected countries

Ukraine has introduced some of the toughest restrictive measures in the region



Source: University of Oxford, ICU

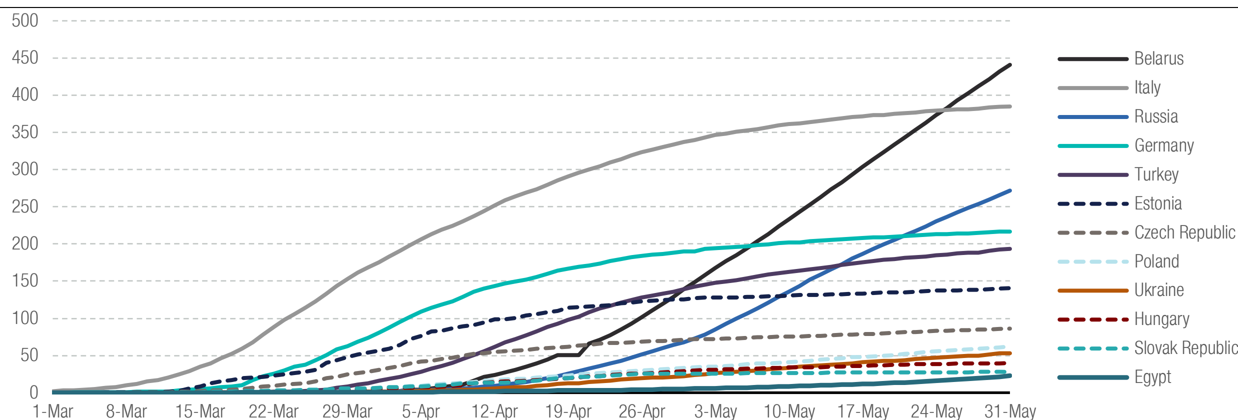
Switch to adaptive quarantine amid the limited spread of coronavirus

Due to such actions, the spread of the coronavirus in Ukraine has been quite limited, in contrast to, for example, Belarus and Russia, where the reaction of the authorities was weak or delayed (see Chart 12). Aware of the negative impact the implemented measures would have on economic activity, and limits to the effectiveness of compensatory stimulus, as well as the containment of the spread of coronavirus in Ukraine, in late April the government published a five-stage quarantine plan, which it began implementing on 11 May. In recent weeks, the government has accelerated the opening of the economy and moved to adaptive quarantine following the example of other Central and Eastern European countries. We expect that the most severe restrictions on economic activity will be lifted by the end of June.

However, during 3Q20, restrictions will still remain for international travel and large gatherings such as for cultural and sporting events. Meanwhile, the norms of social distancing and preventive measures, such as masks and disinfectants, will remain in place.

Chart 12. The number of COVID-19 cases (per 100k persons)

In Ukraine, the number of detected cases is much smaller compared with most countries in the region



Source: University of Oxford, ICU

From market-friendly reforms to support for domestic producers

The economic policy of the new government is more focused on initiatives to support domestic producers in contract to the previous government's preference to implementing market-friendly reforms. In its economic programme, the new government places great emphasis on creating preferences for domestic goods and services compared with foreign counterparts—in particular through the public procurement system and trade policy. It also emphasizes programmes to stimulate lending to SMEs (small and medium enterprises), infrastructure projects, and other incentives for domestic producers. In our opinion, most of these measures will have a rather limited medium and long-term effect on economic growth.

Authorities secured critically needed official financing

However, such a change in the political paradigm allowed the authorities to ensure that the "anti-Kolomosky" banking law was voted on in parliament. That made it impossible to return insolvent banks to their former owners through the courts, and it was the last step for a new agreement with the IMF. At the same time, the format of Ukraine's cooperation with the IMF has changed—from an Extended Fund Facility to a Stand-By Arrangement—which is shorter, easier to implement, and less focused on structural reforms conducive to economic growth. However, the transition to a shorter programme with weaker conditionality is fully justified by the development of the global pandemic crisis and lockdowns with their associated uncertainty. Meanwhile, a departure from the EFF with a stronger focus on structural reforms may be further evidence of a slowdown or suspension of economic growth-friendly reforms.

But the new agreement allows for macroeconomic stability in the face of the coronacrisis and the need to finance an expanded budget deficit. Ukraine received the first tranche of US$2.1bn out of US$5bn under the new programme. But taking Ukraine's history of cooperation with the IMF into account, we expect the country will receive the next tranche only next year. The agreement with the IMF also allows using loans from the EU (€1.7bn) and from the World Bank (US$1bn), and it will restore access to international capital markets.

Public finances: Sustainable despite hit from lockdown

- **COVID-19 caused state budget revenues to underperform by 14% in 4M20**
- **Underperforming budget will force government to cut expenses further in 2H20**
- **IFIs are key sources to finance state deficit and external debt repayments in 2020**
- **With foreign investors still on sidelines, MFU is likely to tighten premiums of its paper to NBU's key rate to 150–200bp, attractive mostly to Ukrainian banks**

Budget deficit to more than triple in 2020

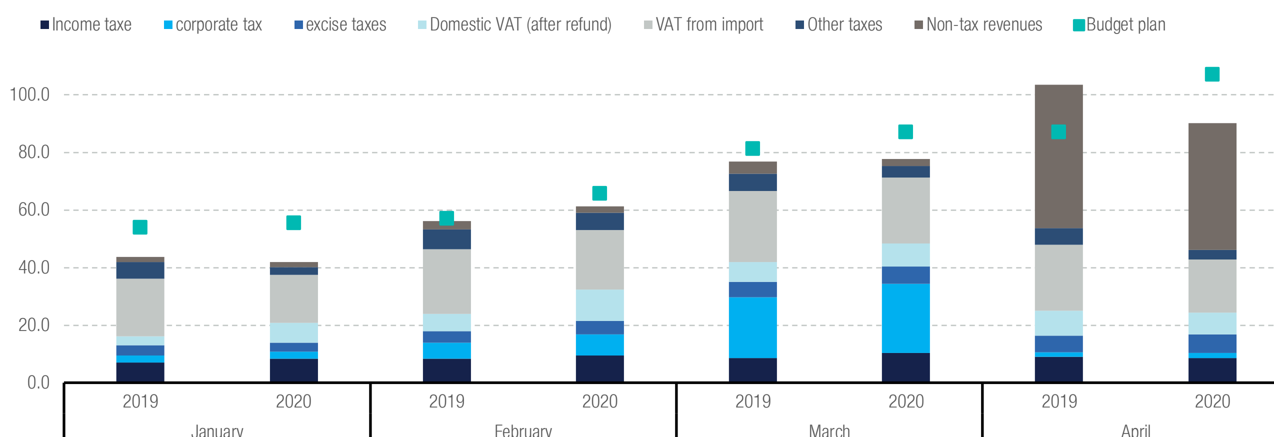
Due to the COVID-19 pandemic, the government had to revise budget figures, which were approved by Parliament in the mid-April. The budget deficit was increased to UAH298bn or 7.5% of GDP.

Budget revenue underperformance is 14% of plan for 4M20

As the first reaction to the lockdown, in April, state budget revenues fell 13% YoY by UAH13.5bn despite the NBU transferring its 2019 profit to the budget in full at the beginning of the month. The main impact on revenues came from tax payments. The drop in VAT due to plummeting imports took the heaviest toll. Overall in 4M20, budget revenues underperformed by UAH44bn or 14% compared with the budget plan for this part of the year, mostly affected by lower-than-forecast import volumes and the hryvnia exchange rate.

Chart 13. Ukraine's state budget performance, UAHbn

Budget revenues, actual and planned figures for January-April, 2019 and 2020



Source: MFU, Treasury, ICU.

Expecting slow but steady economic recovery later this year, we will see budget revenues close to last year's level, but still about 10% below the revised budget plan.

Budget deficit in 4M20 was UAH24bn, financed using short-term bills…

In 4M20, the budget deficit was UAH24bn, as the state budget spent UAH340bn, while it received just UAH315bn of revenues and UAH1bn of budget loans repayment. This deficit was financed mainly by short-term borrowings and the use of reserves from Treasury accounts, which amounted to UAH17.5bn and about US$0.8bn at the beginning of the year.

...and can be 6%GDP or UAH220bn for entire 2020...

Accounting for limited budget financing, we project that the reduction of expenditures will keep the budget deficit at about UAH200bn for the general fund and UAH220bn for the total budget, or about 6% of GDP, for full-year 2020.

...as some budget expenditures can be reduced more than in 4M20.

In 4M20, actual expenditures were below the plan for all items, including health care, military and security services, and education. Looking ahead, we expect that the government will increase financing of health care due to ongoing reforms and the need to fight COVID-19, as well as economic activities to support recovery after the lockdown. However, it will likely reduce financing of security, ecology, and probably education, but capital expenditures will see the main cuts.

We forecast a budget deficit at around 4% of GDP in 2021

In 2021, we expect fiscal consolidation to begin, but it will be a rather gradual balancing of the need to avoid undermining the economic recovery and to ensure fiscal sustainability. In addition, fiscal parameters will be subject to discussion with the IMF, as we expect Ukraine to remain in the SBA with the Fund. Thus, we forecast a budget deficit at around 4% of GDP or UAH160bn.

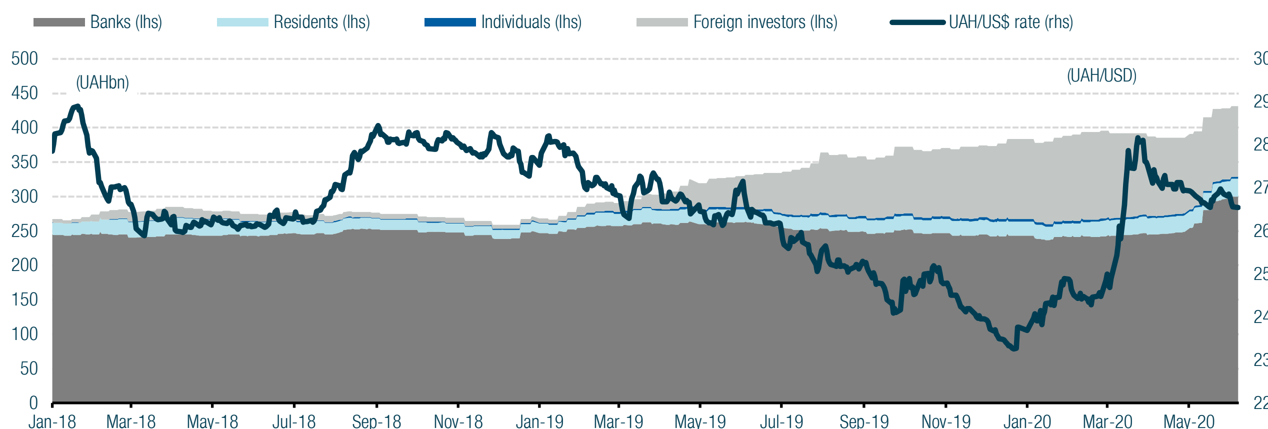
Domestic investors will support demand for local bonds

Most of domestic borrowings during 5M20 were with maturities within this year, and amounted to UAH80bn (nearly half in local currency). Overall, the government had negative budget financing, having repaid UAH37bn more than was raised for the budget to finance this year's deficit, as a result of risk-off sentiment and falling yields of UAH debt.

Due to lack of demand from foreigners for local-currency debt, the MFU switched to short-term maturities with 200–300bp premiums over the NBU key policy rate. Despite tightening to 150–200bp later this year, these premiums, as well as the NBU's new instruments to maintain bank liquidity, will continue to support demand for local bonds from Ukrainian banks and other domestic investors. Domestic investors will enable the government to obtain the major portion of local-currency financing in 2020, while we expect foreigners to stay on the sidelines until the end of 2020.

Chart 14. Ukraine's local-currency bills holders, UAHbn

All local-currency instruments, excluding NBU and UAH/USD exchange rate



Source: NBU, Bloomberg, ICU.

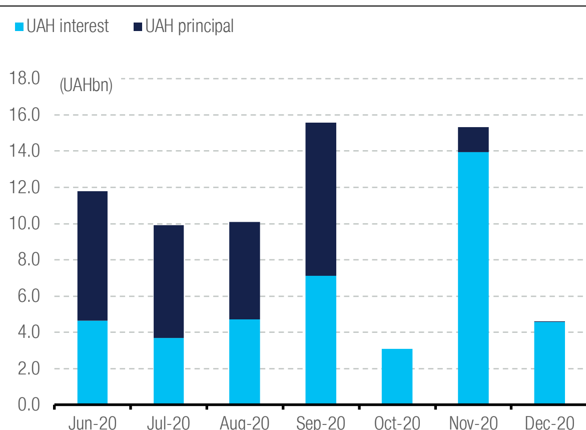
MFU will be able to borrow about UAH80bn in June–December 2020, partially due to slight recovery in demand from foreigners later this year

In local currency, the debt due in June–December 2020 is UAH61bn (US$2.3bn). We project that the government will be able to refinance these bonds and attract UAH20bn (US$0.8bn) in excess of this amount. Partially, it will be the result of non-residents' portfolios of domestic bonds increasing to UAH110bn after falling below UAH100bn during the summer. We forecast a decline in the NBU key policy rate to 5.5% by the end of the year, which means interest rates for government bills will be around 7-8%. This level may not be very attractive for foreigners taking into account Eurobond yields and FX-risk. However, with the hryvnia weakening to about UAH28.5/US$ by the end of this year, foreign investors may increase their holdings of T-bills betting on seasonal UAH appreciation in 2021, which should compensate low yields.

In 2021, we expect foreign investors to keep their cautious outlook on local-currency debt, only moderately increasing their portfolios, while local banks supported by NBU will continue to increase portfolios of domestic bills.

Chart 15. Schedule of UAH-denominated debt repayments (UAHbn)

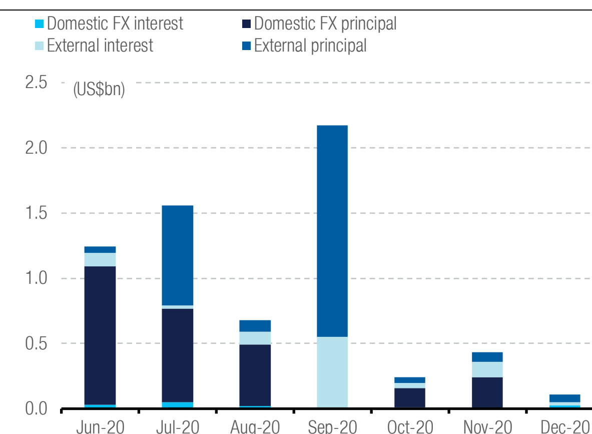
Excluding already-made payments in 5M20



Source: MFU, ICU

Chart 16. Schedule of FX-denominated debt repayments (US$bn)

Domestic and external debt repayments, excluding paid in 5M20



Source: MFU, ICU

IFIs to finance budget deficit and FX redemptions

Government needs IMF programme and external financing to cover US$7.5bn of debt repayments in hard currency in 2020

In 5M20, the Ukrainian government borrowed US$1.6bn and EUR1.5bn YTD. Of these amounts, just EUR1.25bn was borrowed externally. During June–December 2020, the budget has to pay US$4.7bn of external debt and US$2.8bn of domestic borrowings in hard currency. After the recent repayment of US$1bn of US-backed Eurobonds at the end of May, the government should have in its accounts about US$0.2bn in FX. This makes the IMF programme, along with the other IFIs, crucial to finance the budget deficit,.

In 2020, the government can receive US$4.3bn from the IMF and other IFIs. Meanwhile, we expect that the MFU may tap international capital markets as soon as 2H20, and receive as much as US$1.5bn. In addition, we expect 100% rollover on FX domestic bonds.

Table 1. FX-denominated debt repayments and sources for financing for the rest of 2020 and 2021 (US$bn)

	2020[1]	2021		2020[2]	2021
Government FX accounts balance (beginning of the period)	0.2	1.3			
Government FX funding	8.6	8.1	Government FX debt payments	7.5	8.5
IMF	2.1	1.4	IMF	0.5	0.5
Eurobonds	1.5	3.0	Other IFIs	1.0	0.6
WB aid	1.0	0.0	Eurobonds	1.4	1.6
Domestic FX bonds	2.8	3.0	US-backed Eurobonds	--	1.0
EU aid	1.2	0.7	Other external debt repayments	0.8	0.1
			External interest payments	1.0	1.7
			Domestic FX bonds	2.8	3.0
Expected Government FX accounts YE	1.3	0.9			

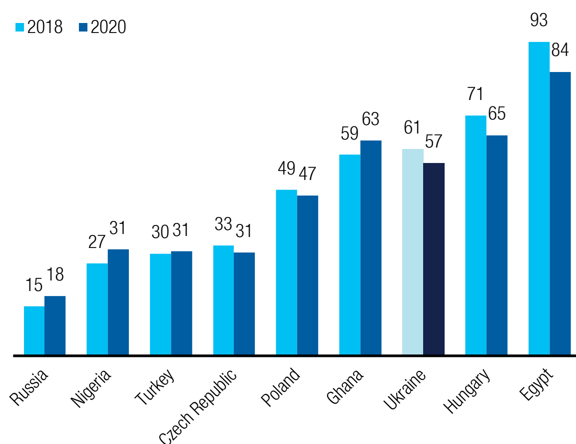
Source: MFU, ICU. Notes: [1] as of 1 June, 2020; [2] Has to be paid during June-December, 2020

Debt-to-GDP ratio will rise to 57% in 2020 and will be almost unchanged in 2021

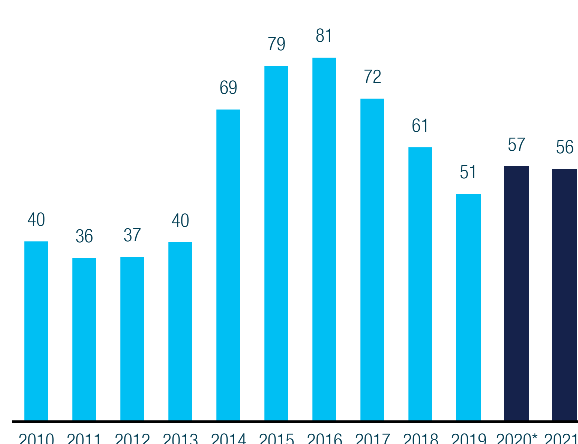
This year, total borrowings in local and foreign currencies will amount to about UAH200–220bn, resulting in a debt-to-GDP ratio increase to about 57% at YE2020, which is not significant.

Chart 17-18. Ukraine's debt-to-GDP ratio is close to peers and neighbours (%)

During 2014-2017, Ukraine's debt-to-GDP ratio was significantly higher than peer countries, but due to hryvnia appreciation, and steady growth in GDP, Ukraine has a good chance to has this ration below 60% at YE2020 despite crisis



Source: IMF, MFU, Ukrstat, ICU.



Source: MFU, Ukrstat, ICU. Note: [*] ICU forecast

Recovery in global markets and the ongoing programme with the IMF should allow the government to receive very important external financing in 2021, e.g. at least one tranche from the IMF and US$0.7bn from the EU, and very likely be able to tap the bond market with a new US$3bn Eurobond issue. Factoring in a budget deficit of 4% of GDP, net borrowings of UAH160bn and a relatively stable exchange rate next year, we expect that the debt-to-GDP ratio will remain almost unchanged in 2021.

Monetary conditions: Interest rates to continue falling

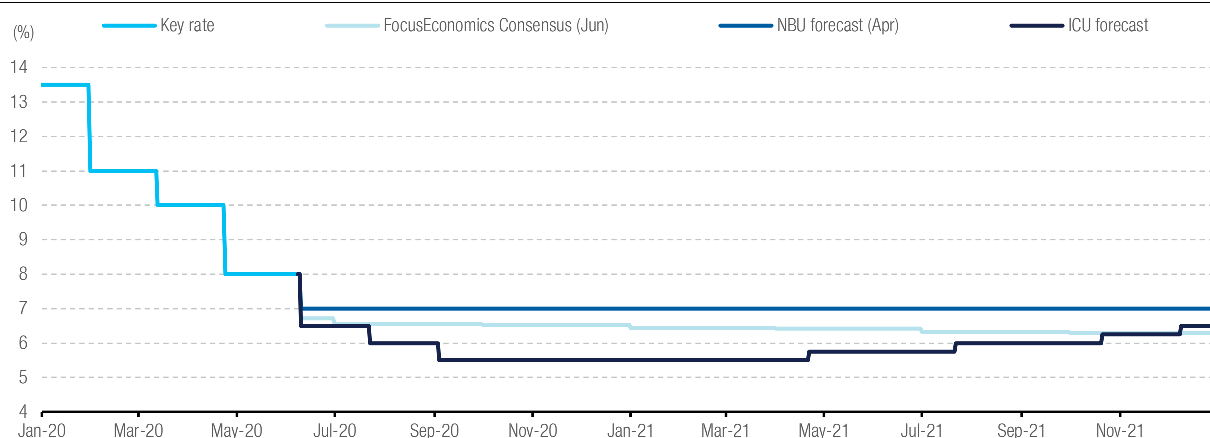
- **NBU will cut rate to 5.5% by the end of 2020, below current expectations**
- **Bond yields and bank rates on deposits and loans will follow the NBU rate**
- **Bank lending will remain subdued despite government efforts to stimulate, due to cautious banking behavior**

Key policy rate to decline further in 2020 and then slightly rise in 2021

The NBU will follow a more dovish path as inflation proves to be lower and the hit to demand greater than projected in April. We expect consumer inflation to remain subdued at 2-3% YoY until 4Q20. Anaemic growth of prices and depressed demand will push the NBU to continue its easing cycle and lower the key policy rate to 5.5% by September, compared with its latest forecast of 7% in 2H20-2021. With anticipated UAH weakening and a recovery of energy prices, the NBU will keep the rate on hold in 4Q20. Then, through 2021, the central bank will gradually raise the policy rate to 6.5%, reacting to recovering demand and inflationary pressures.

Chart 19. Key rate forecast

We expect a dip in the key rate by year-end until the inflation reaches NBU's target



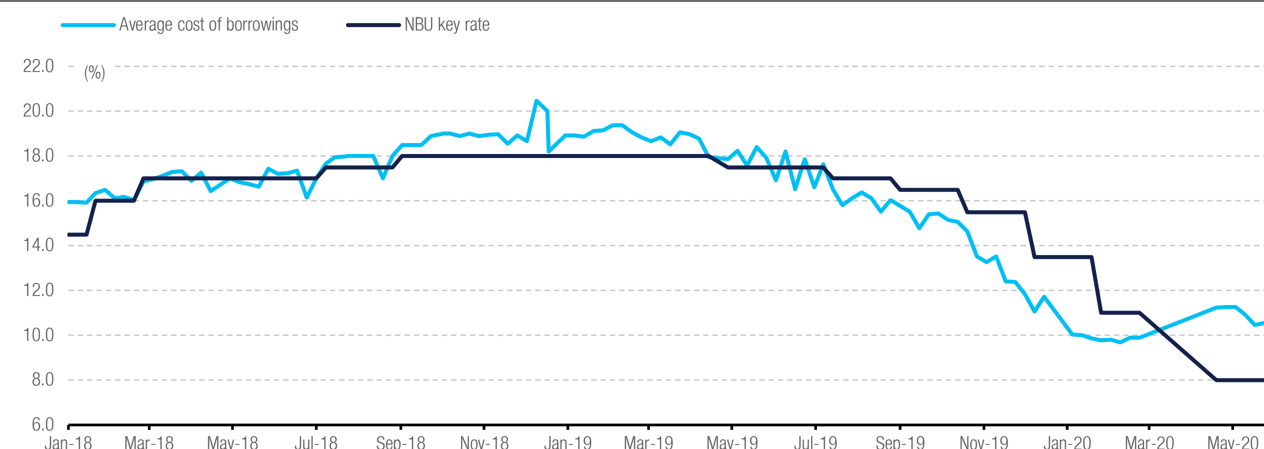
Source: NBU, FOCUSECONOMICS, ICU

Bond yield premiums to policy rate should tighten

During the last few years, bond yields were highly dependent on the NBU key policy rate, with some deviations mainly caused by foreigners' inflows into the local bond market. With a decline in foreign demand for government debt, the Ministry of Finance had to propose an additional premium to the key rate.

Chart 20. Interest rates at primary auctions and NBU key rate

Weighted-average cost of local-currency borrowings and NBU key policy rate



Source: MFU, NBU, ICU.

MFU has to offer premium to NBU key rate, which should tighten to 150-200bp later this year

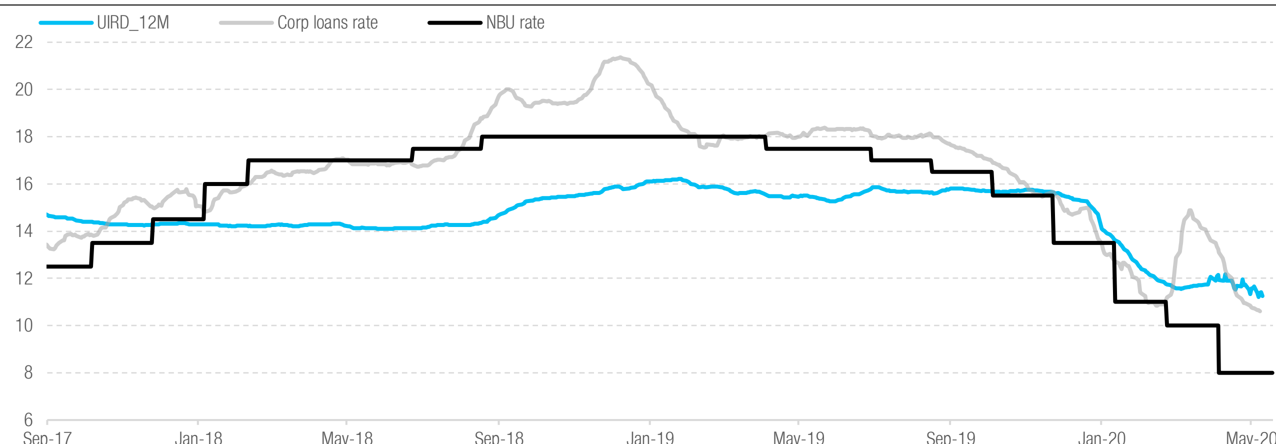
We do not anticipate that foreign investors will change their view soon. At least until autumn, we expect to see a steady outflow of foreign funds from local-currency bills. Without demand from abroad, the Ministry of Finance will have to continue paying a premium to the NBU key rate. This premium will be in the range of 200–300bp throughout the summer. Later this year, assuming a slight recovery in demand from foreigners and banks' adaptation to monetary conditions, it could slightly tighten to about 150–200bp. Therefore, interest rates in the primary bond market will continue to follow the NBU key policy rate.

Bank deposits mostly unaffected by pandemic

The pandemic had little affect on bank deposits; after a short and moderate outflow, deposits recovered. Retail deposits lost 0.5% MoM in March net of the FX effect, but grew again in April by 2.7% MoM. Deposits without early withdrawal have been around for less than five years, but proved to be effective against bank runs. Banks are unlikely to engage in price competition for deposits since they would like to avoid a deep fall of net interest margin as their balance sheets shrink due to lower lending.

Chart 21. UAH rates dynamics

UAH Loan and deposit rates are to follow the NBU key rate



Source: NBU, ICU

At the same time, a growing amount of cash transactions are taking place outside the banking system. Growth of M0 in circulation—24% YoY in May compared with 3-10% YoY growth throughout 2019—is in line with global trends. This likely represents the shadow economy that operated semi-legally during the lockdown including cash hoarding in response to the crisis.

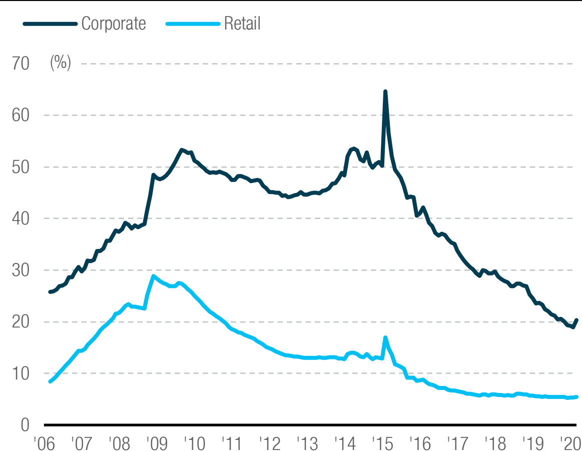
Lack of creditworthy corporate borrowers worsens

Ukrainian banks face a long-standing problem of a scarcity of good borrowers. Given the vulnerability of some industries to the lockdown and expected slow pace of post-pandemic recovery, this problem will not go away. Top borrowers have relatively easy access to the credit they need. At the peak of the COVID-19 crisis while the UAH was rapidly devaluing, Ukrainian banks increased exposure to the corporate sector. Gross UAH loans to legal entities increased in March by UAH17bn (+4.0% MoM), which was one of the largest single monthly increases in the past six years. However, this was an indication of limited demand for loans from good borrowers. Exporters saw depreciation of the local currency and were seeking UAH funding to order not to sell FX revenues to finance current expenses. This debt is mostly short term and will gradually be repaid as the volatility in the FX market normalizes. In fact, April saw no increase in lending despite more relaxed monetary conditions.

Weak demand from borrowers the banks would like to finance, limited access to credit from previously defaulted borrowers, as well SME that often operates outside of the banking system, have led to further deleveraging. In March, the ratio of gross corporate loans to GDP reached 20%, the lowest in decades. Moreover, this figure is largely overstated, as 54% of the gross loans in the banking sector are NPLs, especially in the state-owned banks. Ukraine has already committed to resolve such loans, and one can expect their gradual write-off as well as partial recovery.

Chart 22. Gross loans to GDP ratio

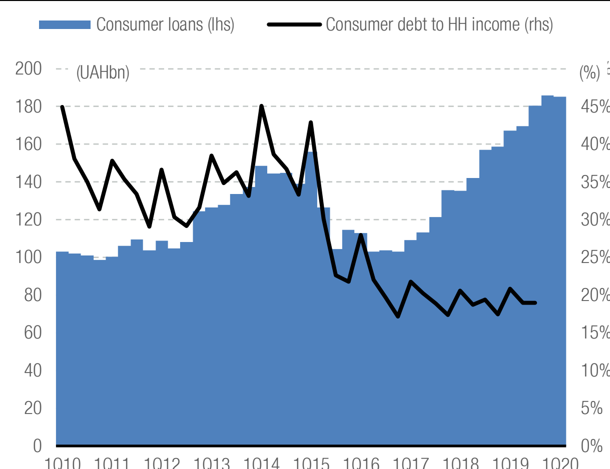
A decade-long deleverage has brought ratios to record low levels



Source: NBU, ICU

Chart 23. Consumer loans (stock) to quarterly HH income

Consumer lending is unlikely to reach the 2012/13 boom levels



Source: NBU, ICU

Government programmes can increase gross loans by up to 1% of GDP

Prior to the global pandemic, the government launched a programme to tackle the issue of unequal access to credit by providing loans to SME at below market rates. The Ministry of Finance is to cover the difference between market and preferential rate. The change in macroeconomic conditions required the programme to be adapted to include existing loans and provide state guarantees for borrowers with insufficient collateral.

This initiative can add the equivalent of an additional 1% of GDP to the gross loan portfolio of the banking system in the segment, which is underbanked. However, it is unable to reverse the overall deleverage in the system.

Consumer lending halted

Gross consumer loans to stop growing after three years of rapid increase

Consumer lending has been growing for the past three years by 10–50% YoY. However, banks are likely to reduce the approval rates for the new loans and decrease the credit lines in expectation of a decline in household income. Banks were physically unable to provide POS loans in the brick and mortar stores during the lockdown period. In addition, consumer expectations deteriorated as people are reluctant to buy amid uncertainty. Newly issued loans will not be enough to offset the repayments. Therefore, we expect gross household loans in UAH to produce 0% YoY growth by the end of 2020 compared with 26.2% YoY growth in 2019.

The government's plans to revive mortgage lending, which has been marginal for more than a decade, can be possible beyond the 2020. So far, mortgages with a 10% interest rate can be possible only under a government subsidy that authorities have yet announced. However, mortgages are the next logical step for the banks as the consumer lending market will be close to saturation.

Economy: Gradual recovery ahead

- **Ukrainian economy better prepared to weather this crisis than previous ones**
- **When economy is reopened, depressed demand will put drag on recovery**
- **Labour market switches from tight to excess**

Initial shock to economy is driven by supply side

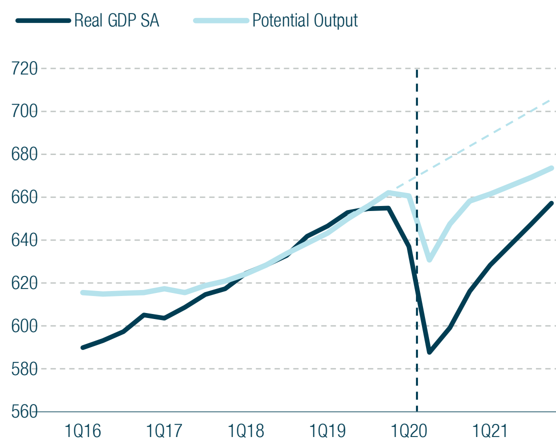
GDP bottoms in 2Q20 due to containment measures

April data confirmed the toll from the pandemic and prolonged restrictions on travel and non-essential trade: passenger transportation plummeted, industrial production, and trade and cargo transportation accelerated their decline, while agriculture remained resilient. According to our estimates, the decline in GDP deepened to 12% YoY in April from 4.5% YoY in March. Accounting for a gradual easing of the quarantine domestically and the earlier-than-expected opening of economies worldwide in May, it seems that the Ukrainian economy has, hopefully, passed its trough in April. Business activity is back and there are signs of life in the recovery in high-frequency indicators such as electricity production, distances moved on foot and by cars, number of vacancies, etc. However, "unfreezing the economy" is still heavily confined by the restrictions on public transportation and remaining social-distancing measures. As a result, we expect the decline in GDP to be around 10% YoY in 2Q20.

The initial shock to the economy was in a significant part due to the supply side, part of which was administratively turned off. The opening of economy will help to quickly restore "potential output", but most likely not to the initial level; for some reason, some businesses will not be able to open (see Chart 24). Moreover, the post-lockdown growth of potential will remain lower than pre-COVID-19 crisis rates (2.5–3.0% vs 3.5–4.0%) due to a fall in investments during the lockdown, increased operational costs for doing business (due to the need to ensure distance and medical protection given the new realities), strengthening protectionism globally, complicating or breaking the traditional value chains, and so on. At the same time, the crisis can provide a positive impact on productivity rates through a number of channels: for example, due to lower energy costs, active switching to remote methods of work, sale and education, etc.

Chart 24. Actual and potential real GDP (UAH bn, 2016 prices, SA)

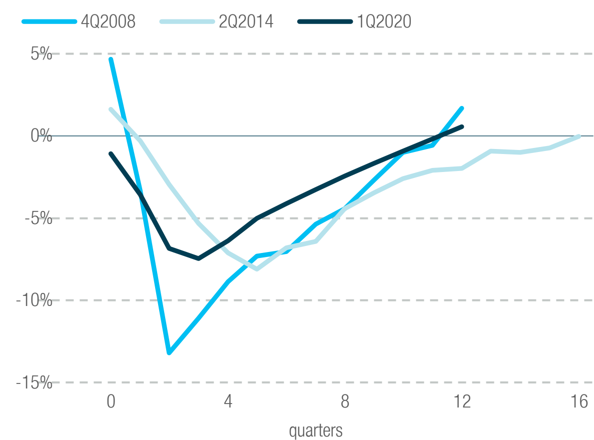
Potential GDP recovers fast to pre-crisis level, but further growth is slower



Source: Ukrstat, ICU.

Chart 25. Output gap (% of potential GDP), 1Q is in legend

The recovery of demand this time is faster, but still prolonged



Source: Ukrstat, ICU.

Recovery will struggle due to depressed demand

Depressed demand puts a drag on recovery

From mid-2020, the leading role in causing economic downturn will be switching from containment measures to depressed demand. We expect that demand recovery will be a longer process than "turning on the potential". Although initially a certain realization of deferred demand is possible, losses in incomes of consumers and businesses, and limited fiscal stimulus going forward will prevent a strong recovery. An additional factor is the expected raising of the propensity to save amid the precautionary behavior of people fearing layoffs and a second wave of the pandemic.

While still sizable, the shortfall of demand is milder compared with previous crisis episodes. The accumulated output gap is projected to amount to 10.5% of annual GDP vs 16.2% in the 2008–09 crisis and 13.6% in 2014–15 crisis (see Chart 25).

Such outcome is determined by strong macroeconomic fundamentals and a sound banking-system stance before the crisis, limited exposure to capital flight, and favourable developments in terms of trade. The comparison of these factors with the previous crises is presented in Table 2.

Table 2. Factors determining the deepness, and of opening, and the pace of closing the negative output gaps

Negative impact is indicated by red color, neutral – by yellow, positive – by green

	2008-2010	2014-2017	2020-??
External demand	Sharp fall globally due to GFC, quite fast recovery in 2010-11	Strong fall of demand from Russia, partially offset by demand from EU due to association agreement	Moderated fall of demand for metals, but demand for foods and IT services remains robust
Terms of trade	Strong negative effects due to plummeting steel prices	Gradual decrease of commodity prices – losses for export prices were partially offset by decline in energy prices	Plunge of energy prices amid relatively stable prices for commodity exports (iron ore, steel, grain)
Capital flows	Sizable capital outflows amid high current account deficit	Sizable capital outflows amid high current account deficit	Sudden stop of capital inflows was rather limited
Fiscal response	Budget deficit was raised from 3% of GDP in 2008 to 6% of GDP in 2009-10	Strong fiscal consolidation in 2015-16	Budget deficit is projected to rise from 2% of GDP to 7.5% of GDP
Monetary police response	Fighting against depreciation and inflation, tight capital controls	Fighting against depreciation and inflation, tight capital controls	Cutting interest rates, providing liquidity
Banking system reaction	Credit boom stops, deleverage was muted by fiscal and monetary stimulus	Full-fledged banking crisis followed by sizable deleveraging	Banking system is ready to provide credit vacations, new state programmes of lending
Exogenous factors	Bursting of bubble on real estate market	Extreme uncertainty due to military conflict	High uncertainty related to the second wave of pandemic

Source: ICU

Gradual recovery ahead

Real GDP to fall 6.7% in 2020 and grow 5.7% in 2021

Combining the effects from the supply and demand sides, we see ahead an economic recovery pattern more like the Nike swoosh. We see a dramatic surge once the lockdown ends, but then the boost fading in 2H20, as the GDP quite slowly resumes towards a pre-pandemic trajectory. In our baseline scenario, real GDP falls by 6.7% in 2020 with growth restored by 5.7% in 2021.

Domestic demand subdued in 2020

In 2020, contraction in domestic demand leads the economic downturn. Private consumption will shrink by 5.8%, and the main declines will be observed in purchases of durable goods, travel, and hotel and restaurant services. In addition, after four years of strong growth, investment in fixed capital will plunge by 16%. Companies will be much more careful in their investment projects, among the reasons due to the lack of demand in sufficient quantities both abroad and locally. At the same time, we expect an increase in investments in medicine and pharmaceuticals, IT, the organization of remote work, automation, and robotics. Some

additional demand will be generated by the agro sector factoring in solid revenues this year and accumulated funds for land purchase as the launch of a full-fledged land market is delayed. Continuation of government infrastructure projects will provide additional support. However, all these initiatives will not be able to fully compensate for the reduction in investment in "traditional" sectors. Meanwhile, net exports reverse to positive values, a first since 2015.

In 2021, instead, the recovery is driven by domestic demand, with net exports returning to the negative area.

Table 3. Real GDP and its components by expenditures (YoY, %)

	2019	2020(F)	2021(F)
Real GDP	3.2%	(6.7%)	5.7%
Final consumption expenditure	8.1%	(6.1%)	6.0%
households	11.9%	(5.8%)	7.1%
government	(4.9%)	(11.0%)	1.0%
Gross capital formation	(19.9%)	(18.3%)	21.2%
gross fixed capital formation	14.2%	(15.8%)	15.0%
Exports of goods and services	6.7%	(11.0%)	10.7%
Imports of goods and services	6.3%	(13.3%)	13.4%

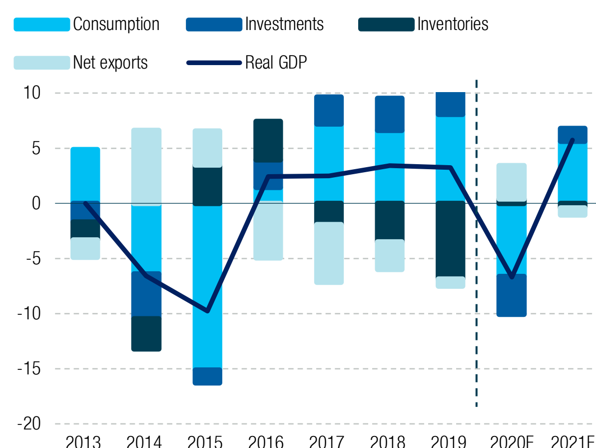
Source: Ukrstat, ICU.

Ukrainian economy looks robust compared with peers

Unlike previous crises, the contraction in Ukraine is expected to be slightly milder compared with averages in Europe thanks to the lower share of services in GDP and a relatively modest number of COVID-19 cases (see Chart 27). However, insufficient policy stimulus causes worse results compared with CEE countries.

Chart 26. The structure of real GDP growth (YoY, %)

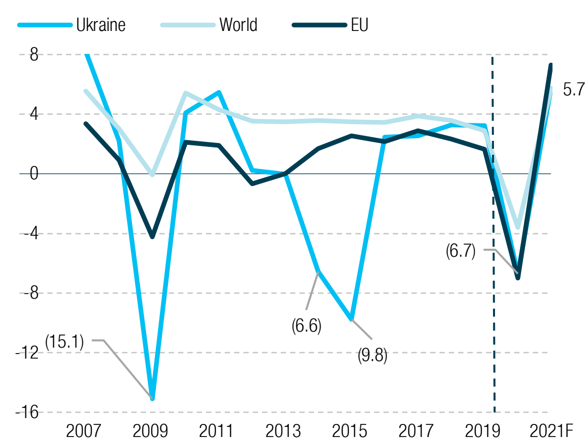
2020 shows temporary drop in domestic demand and positive net exports



Source: Ukrstat, ICU.

Chart 27. GDP in Ukraine and worldwide (YoY, %)

This time the crisis in Ukraine is not sizably deeper than in peers



Source: Ukrstat, ICU.

Rise in unemployment to be relatively moderate

Labour market switches from tight to excess

The position of the labor market is changing dramatically because of the COVID-19 crisis. Labour shortages and fast wage growth switched to labour excesses and wage cuts. During the lockdown, many workers were fired. Not all of them will be able to find a job after the economy is reopened due to prolonged demand destruction and companies' changing business models. In addition, a number of individual entrepreneurs may become unemployed as they will not be able to reopen their businesses post-lockdown. We do not expect that the

government's programmes to increase employment will be successful since their plans account for already existing jobs that are low paid. At the same time, Ukrainian companies frequently prefer to put employees on unpaid leave or decrease the number of working days instead of laying off. Therefore, we project that growth of unemployment will not be as dramatic as in other countries. In Ukraine, we project unemployment to increase to about 10% in 2020 from 8.2% in 2019, with a gradual decrease in the following years.

However, this rigidity in the labour market, combined with lower labour mobility will increase pressure on wages. Thus, after four years of strong wages growth, we expect that real wages will be flat this year with slow growth next year.

Inflation: Slowly rising

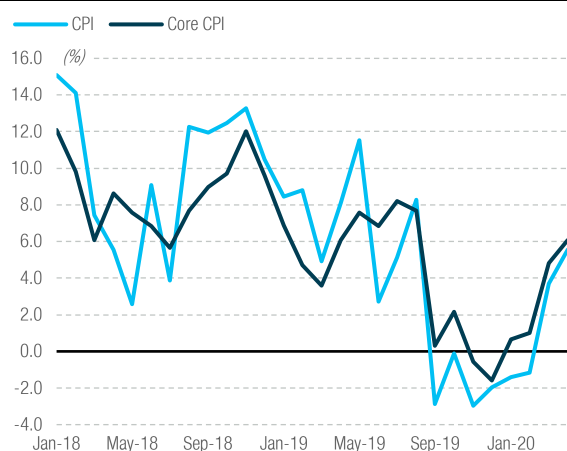
- **Inflation remained subdued at the beginning of 2020**
- **Weaker UAH and rebound of energy prices allow CPI to speed up only to 4.2% YoY by YE2020, and to 5.3% YoY by YE2021**
- **Subdued consumer demand and weak nominal wage growth will restrain inflationary pressure**

In April, inflation fell to the lowest level since 2013

After a prolonged period of low inflation, March and April 2020 showed recovery of price growth at a pace close to the NBU's 5% inflation target when measured by the MoM seasonally adjusted annualized rate (see Chart 28). However, we think that this result is temporary reflecting the fading effects of depreciation in 1Q20 and panic demand for essentials. Moreover, this MoM acceleration was lower than expected and annual headline inflation decelerated to 2.1% in April. The annual core inflation figure was benign at 3.1%, remaining almost unchanged since January. The inflation figure confirms that overall contraction of aggregate demand so far exceeds the fading effect of recent UAH depreciation.

Chart 28. CPI and Core CPI (MoM SAAR, %)

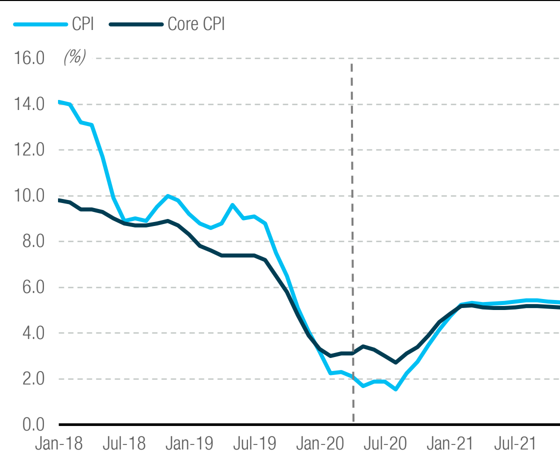
Mar and Apr-20 showed recovery of price growth



Source: Ukrstat, ICU.

Chart 29. CPI and Core CPI (YoY, %)

Acceleration is expected only in fall



Source: Ukrstat, ICU

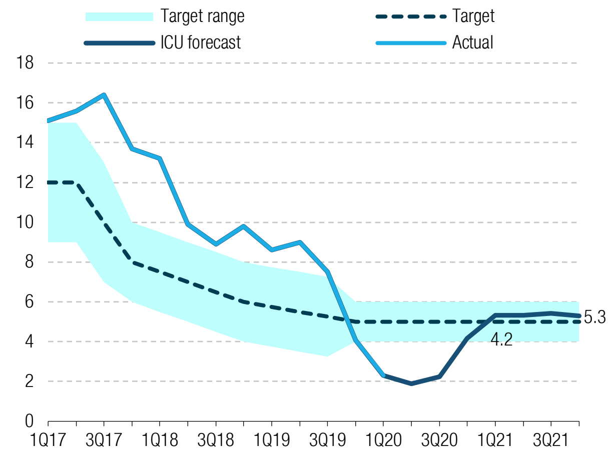
Inflation will rise to 4.2% by YE2020, and further to 5.3% by YE2020

Factoring in depressed demand and a relatively stable exchange rate, we expect quite anemic inflation in the following months. Inflation pressure should reemerge in the fall due to the weakening currency, pass-through from recovering global energy prices, and gradual repair of domestic demand, mainly for food. However, we expect that consumer inflation will return to NBU's target range only by the end of 2020, rising to 4.2%. Through 2021, consumer inflation will be close to 5%, determined by moderated imported inflation and recovering domestic demand due to loose monetary conditions and gradual fiscal consolidation.

Meanwhile, the high share of the food component in the CPI basket and unclear lockdown effects on its supply make these projections and their risk assessment subject to extremely high uncertainty this year.

Chart 30. Inflation: forecast and target of the NBU (YoY, %)

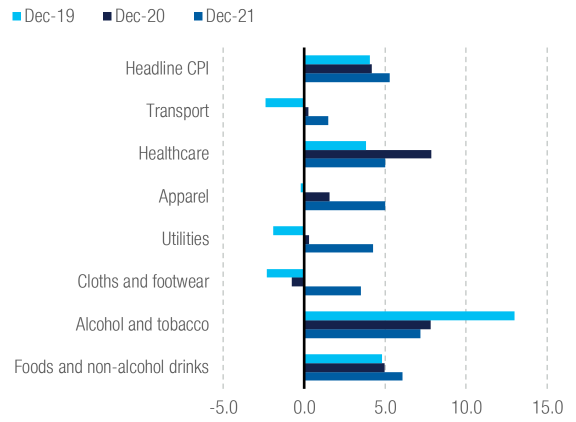
Inflation will below the NBU target range by the end of 2020



Source: NBU, Ukrstat, ICU.

Chart 31. Inflation: by components (YoY, %)

Food inflation determined outcome due to its high share in the basket



Source: Ukrstat, ICU

BoP: Strong C/A gains help offset capital outflows

- **Thanks to favourable terms of trade and demand shocks, C/A turns to surplus in 2020 and a low deficit in 2021**
- **Sudden stop of capital flows causes "mild" BoP/currency crisis in 2Q20**
- **UAH remains quite robust while moderate weakening is expected in 2H20 due to monetary policy easing and C/A returning to deficit**

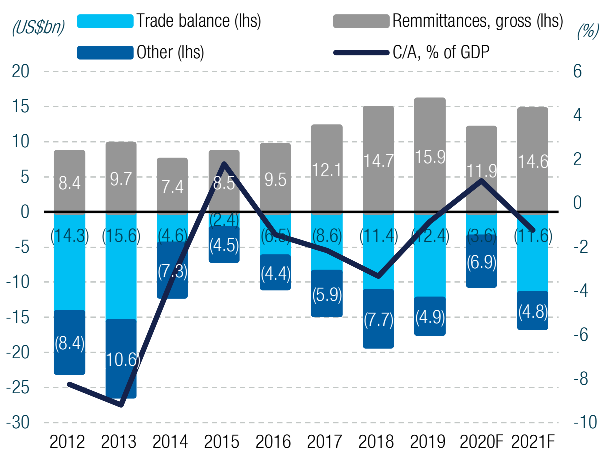
C/A benefits from demand shock and favourable terms of trade

Sharp drop in domestic demand for imports and low prices for oil and gas will cause C/A surplus of 1% of GDP in 2020

The coronavirus pandemic and national lockdown in Ukraine caused a sharp drop in demand for consumer goods and services, as well as equipment and other fixed assets. Furthermore, the global demand shock was the primary factor sending oil and natural gas prices close to 10-year record lows. As a result, in 2020, Ukraine's trade balance should shrink 71% to US$3.6bn or 2.4% of GDP and be the key factor of the C/A turning into a surplus of 1% of GDP.

Chart 32. Ukraine's current account (US$bn, % of GDP)

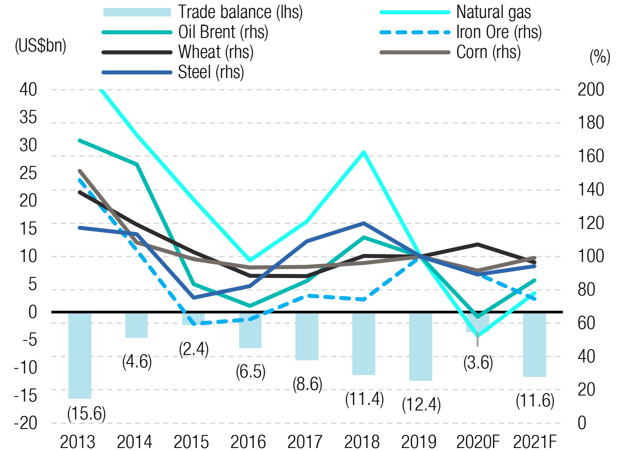
Changes in the trade balance will be the key driver of C/A 1.1% of GDP surplus in 2020 and 1.9% of GDP deficit in 2021



Source: NBU, Ukrstat, ICU.

Chart 33. Commodity prices (2019=100) vs trade deficit (US$bn)

Changes in prices for oil and natural gas continue to significantly influence Ukraine' s trade balance



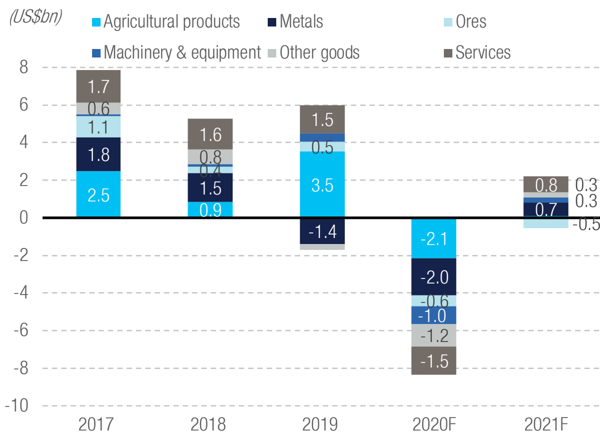
Source: NBU, Bloomberg, ICU

In 2020, exports should decline by 13% to US$55bn, driven primarily by falling metallurgy and iron ore exports, agri products, and machinery and equipment. Among price factors, decline in the steel (by 11% YoY) and iron ore (by 10% YoY) price will be most significant. At the same time, metal and machinery exports should see the biggest declines in physical volumes, by 10% YoY and 20% YoY, respectively. Exports of services should be weighed by lower volumes of gas transit and depressed travel and transportation flows.

However, a drop in 2020 imports should exceed export losses by more than twice as we expect imports to drop by 23% YoY to US$59bn. A decline in energy purchases (-41% YoY) should contribute almost one third to the overall decline in imports due to lower prices, falling consumption, and high stocks of natural gas. The second biggest contributor should be a 19% YoY drop in imports of machinery and equipment. Plummeting travel and transportation expenditures will have the main weight in a 22% fall of service imports.

Chart 34. Change in exports from Ukraine (US$bn)

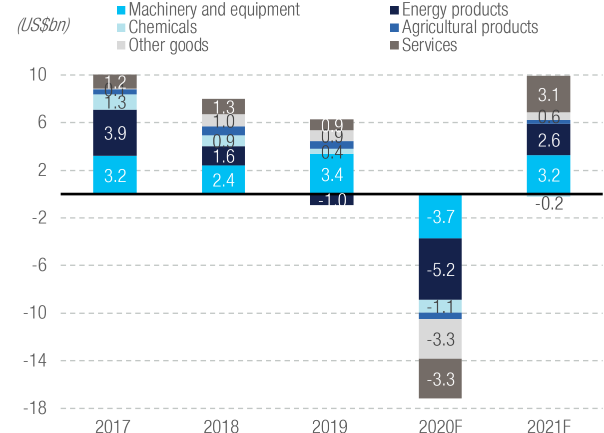
Agri, metals, ore and machinery will drive fall in 2020 exports



Source: NBU, ICU.

Chart 35. Change in imports into Ukraine (US$bn)

Imports in 2020 will drop mostly due to lower prices and volumes of oil and gas



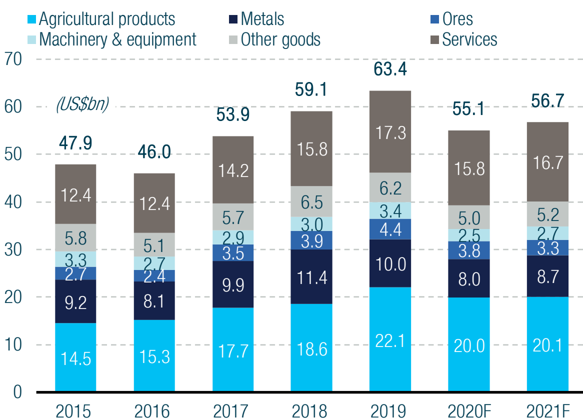
Source: NBU, ICU

We expect the contraction in the trade deficit to be big enough to absorb the current account's losses caused by declining remittances from labour migrants. Gross remittances should decline by 25% to US$11.9bn. We believe the downside risks to our remittance forecast are mitigated by the relative resistance to the COVID-19 crisis of CEE economies and by high demand in Europe for Ukrainian migrant labour.

We also expect that one of the key items of the current account's other expenses, dividend expatriation, will decline by 20% to US$2.6bn in 2020, as many Ukrainian corporates should switch to a cash-conserving mode in view of the economic recession and hindered access to FX capital.

Chart 36. Ukraine's exports (US$bn)

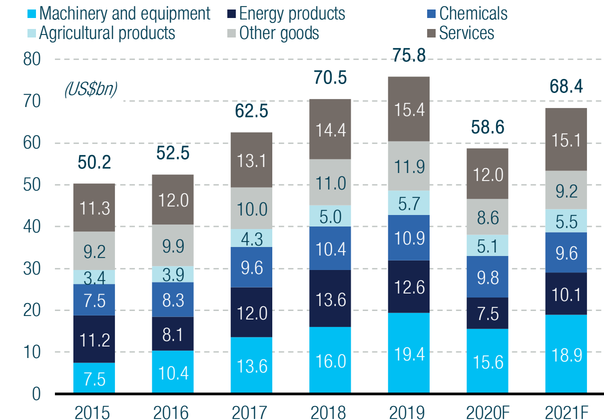
Exports will decline by 13% in 2020F and then grow just 3% in 2021F



Source: NBU, ICU.

Chart 37. Ukraine's imports (US$bn)

Imports will fall 23% in 2020F and then rebound by 17% in 2021F



Source: NBU, ICU

Starting from 2H20, the current account surplus should turn to deficit. We expect a C/A deficit of 1.2% of GDP in 2021. The key driver, the trade deficit, will almost triple to US$11.6bn or 7.6% of GDP in 2021 due to recovering domestic demand and a surge in prices for oil and natural gas. Imports of machinery and equipment, energy, and services should be the key contributors to the overall 17% YoY growth in Ukraine imports in 2021. We expect the key item of imported services, travel, to rebound 40% in 2021, although still 3% lower than in

2019. Exports should see just a moderate 3% YoY rebound, mainly due to tepid demand for metals, the ongoing decline in iron ore prices, and the expected 40% cut in transit volumes of Russian gas through Ukraine.

Net capital inflow to resume in 2021

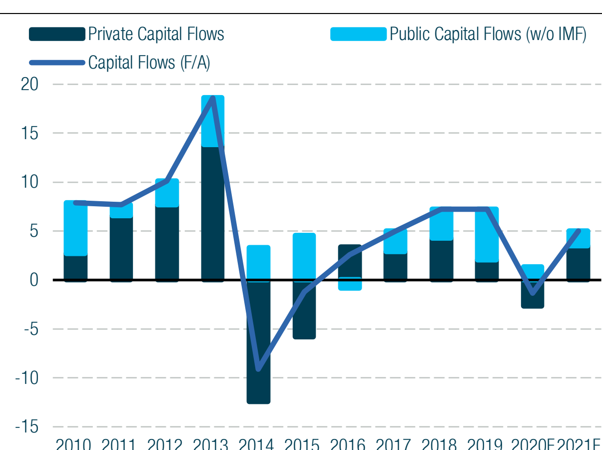
Moderate, short-lived BoP crisis in 2020

Like most EM countries, Ukraine has faced an outflow of capital due to increasing turbulence in global financial markets. However, unlike many peers and its own previous episodes with balance-of-payments crises, this time, capital outflows were quite short-lived and moderate in scale. Overall, we estimate a net capital outflow of US$1.5bn in 2020, in sharp contract from US$15bn seen in 2014–15, for example. As it is usual during crisis episodes, capital outflows were generated by the private sector, while public sector borrowings through official channels partially offset this outflow. However, this year, net capital inflows to the public sector are even smaller than previous years (note that we account for IMF loans separately, below the line in BoP). This is largely due to significant repayments of external debt and a reduction in domestic bonds owned by non-residents in 2020. In addition to the already mentioned official financing (€1.7bn from the EU, US$1bn from the World Bank, and US$0.5bn NBU swap with the EBRD), we expect the government to return to the international capital markets and place Eurobonds for US$1.5bn in 2H20 and US$3bn in 2021.

In 2020, the private sector is expected to reduce the acquisition of FDI, repay external debt moderately, and continue to accumulate foreign assets. As a result, net capital outflows of the private sector will be almost US$3bn (for comparison in 2014–15, it amounted to US$18bn). In 2021, the private sector will once again become a net recipient of capital flows, about US$3.5bn in total.

Chart 38. Capital flows in financial account (US$ bn)

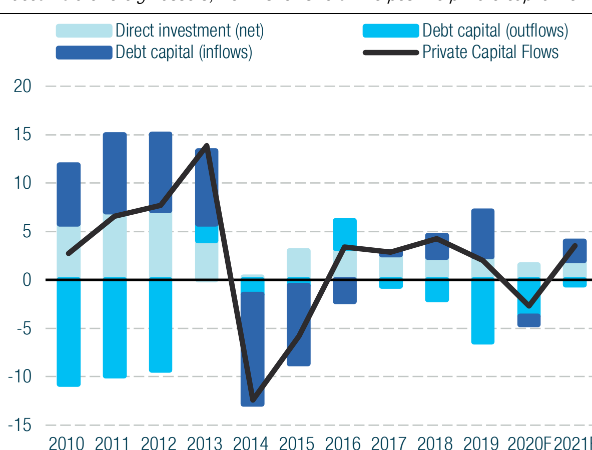
In 2020, F/A turns to negative values due to private sector outflows



Source: NBU, ICU.

Chart 39. Capital flows of private sector (US$ bn)

In 2020, inflows of foreign debt capital reverse while residents continue to accumulate foreign assets; 2021 shows return to positive private capital flows



Source: NBU, ICU

FX reserves keep growing in 2020-21

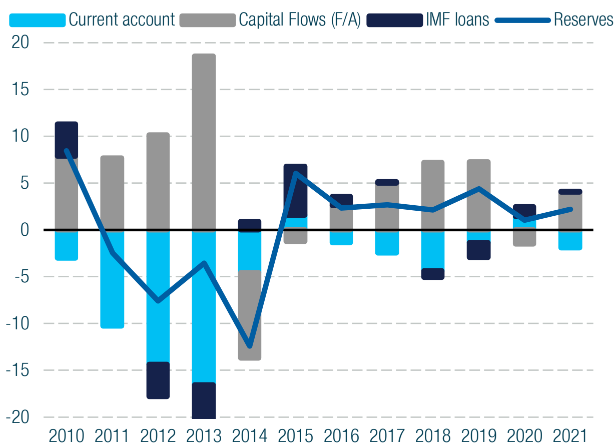
Reserves are projected to reach as much as 100% of IMF ARA metric in 2021

In 2020, the current account surplus will be offset by capital outflows under the financial account. Accordingly, the increase in reserves by US$0.9bn will be exclusively due to the first tranche of the IMF programme (US$2.1bn). In 2021, despite the return of the current account to deficit, we forecast an increase in reserves of almost US$2.2bn due to the resumption of capital inflows under the financial account and the disbursement of the second tranche from

the IMF. As a result, reserves will increase to almost US$28.5bn or 100% of the IMF Aggregate Reserve Adequacy metric.

Chart 40. Changes in reserves (US$ bn)

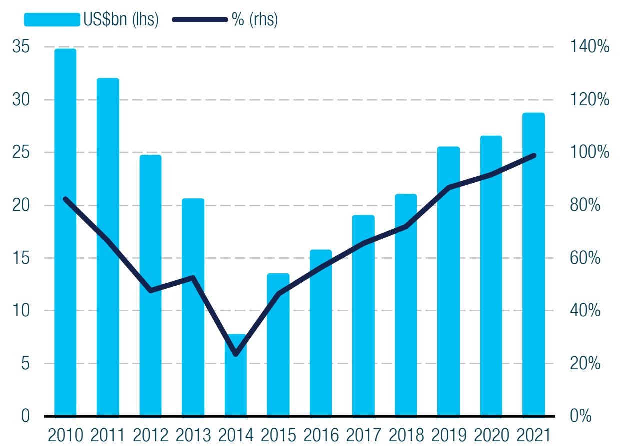
Only temporary pause in accumulation of reserves in 2020



Source: NBU, ICU.

Chart 41. Reserves (US$ bn) and the ratio to IMF ARA metric (%)

Reserves are projected to reach 100% of IMF ARA metric in 2021



Source: NBU, IMF, ICU

Expect mild depreciation of hryvnia in 2H20–2021

Throughout March, a panic-driven sell-off due to the onset of the COVID-19 lockdown caused a 13% drop in the hryvnia's FX rate to UAH28.11/USD. However, in April–May, devaluation fears of the population and businesses were calming, exporters were buying UAH cash for their operational needs, while importers were staying on sidelines due to deteriorated demand, and Ukraine was steadily progressing towards an agreement with the IMF. As a result, since the beginning of April, the national currency rebounded by 5%. Worth noting, lowering foreign participation for UAH-denominated government paper did not have a significant negative impact on the hryvnia's FX rate.

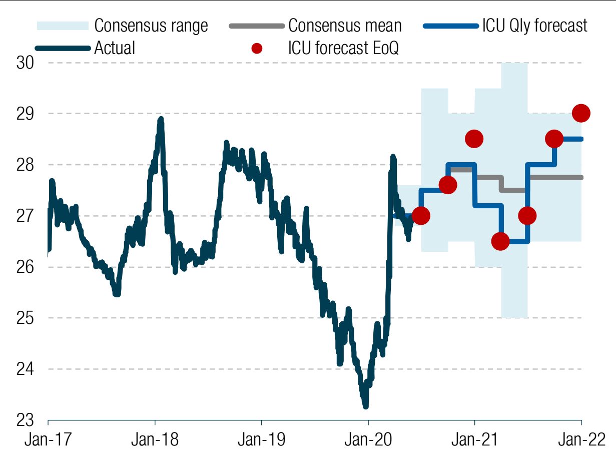
Chart 42. UAH/USD rate in 2017–20

After the panic-driven sell-off in March, the hryvnia partially recovered in April-May thanks to exporters demand, inactive importers, and improving sentiment

Source: NBU, ICU.

Chart 43. UAH/USD forecast

UAH will depreciate to 28-29/USD by end-2020 and then to 28.5-29.5/USD by end-2021



Source: NBU, Bloomberg, ICU

We expect moderate depreciation of the hryvnia to UAH28-29/USD by end-2020 and UAH28.5-29.5/USD by end -2021

Foreign investors are unlikely to return to Ukraine's FX market this year given their expectations for devaluation of the hryvnia, insufficiently attractive valuations of government paper, and high uncertainty in general. However, access to financing from IFIs, favourable terms of external trade, and the C/A surplus should keep the hryvnia from depreciating significantly in 2020.

We expect the hryvnia will remain relatively stable within the UAH26.5–27/USD range during the next several months thanks to depressed imports, the coming first tranche of aid from the IMF, and gradually easing containment measures. In 2H20, recovering economic activities and rising oil prices should cause the current account to return to deficit. Further monetary easing will improve FX market players' access to hryvnia liquidity, as we expect the NBU to make additional cuts in the policy rate to 5.5% through the rest of the year. As a result, the hryvnia should gradually depreciate to UAH28–29/USD by end-2020.

Throughout 2021, the current account deficit will be expanding; however, the resumption of FX capital inflows to the public and private sector will ease pressure on the hryvnia. Furthermore, the likely return of foreign inflows into government UAH debt will provide additional support. We expect the UAH to continue its gradual depreciation to UAH28.5–29.5/USD by the end of 2021.

Yearly forecast 2020–21

	Historical data for 2010-19										Forecast by ICU	
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020F**	**2021F**
Activity												
Real GDP (%, YoY)	4.2	5.5	0.2	0.0	-6.6	-9.8	2.4	2.5	3.4	3.2	-6.7	5.7
Nominal GDP (UAHbn)	1,079	1,300	1,405	1,465	1,587	1,989	2,385	2,984	3,561	3,975	3,912	4,234
Nominal GDP (US$bn)	136	163	174	180	133	90	93	112	131	155	145	153
Unemployment (%)	8.2	8.0	7.6	7.3	9.3	9.1	9.3	9.5	8.8	8.2	10.0	9.5
Inflation												
Headline inflation (%, YoY, e.o.p)	9.1	4.6	-0.2	0.5	24.9	43.3	12.4	13.7	9.8	4.1	4.2	5.3
Headline inflation (%, YoY, avg.)	9.4	8.0	0.6	-0.3	12.1	48.7	13.9	14.4	10.9	7.9	2.5	5.3
GDP deflator (%, YoY)	13.5	14.2	7.8	4.3	15.9	38.9	17.1	22.1	15.4	8.1	5.5	2.4
Exchange rates												
UAH/USD (e.o.p.)	7.94	8.04	8.05	8.24	15.82	24.03	27.30	28.10	27.72	23.81	28.50	29.00
UAH/USD (avg.)	7.95	7.98	8.08	8.15	12.01	21.95	25.55	26.61	27.19	25.80	26.89	27.55
External balance												
Current account balance (US$bn)	-3.0	-10.2	-14.3	-16.5	-4.6	1.6	-1.3	-2.4	-4.4	-1.3	1.5	-1.9
Current account balance (% of GDP)	-2.2	-6.3	-8.3	-9.2	-3.5	1.8	-1.4	-2.2	-3.3	-0.9	1.0	-1.2
Trade balance (US$bn)	-4.0	-10.1	-14.3	-15.6	-4.6	-2.4	-6.5	-8.6	-11.4	-12.4	-3.6	-11.6
Trade balance (% of GDP)	-2.9	-6.2	-8.3	-8.7	-3.5	-2.6	-6.9	-7.7	-8.7	-8.0	-2.4	-7.6
Exports (US$bn)	65.6	83.7	86.5	81.7	65.4	47.9	46.0	53.9	59.1	63.4	55.1	56.7
Imports (US$bn)	69.6	93.8	100.9	97.4	70.0	50.2	52.5	62.5	70.5	75.8	58.6	68.4
Capital flows (F/A) (US$bn)	7.9	7.7	10.1	18.6	-9.1	-1.2	2.6	5.0	7.2	7.3	-1.5	4.0
FDI (US$bn)	5.8	7.0	7.2	4.1	0.3	3.0	3.3	2.6	2.4	2.4	1.5	2.0
FDI (% of GDP)	4.2	4.3	4.1	2.3	0.2	3.3	3.5	2.3	1.8	1.6	1.1	1.3
Reserves (US$bn)	34.6	31.8	24.5	20.4	7.5	13.3	15.5	18.8	20.8	25.3	26.3	28.5
Reserves % of ARA metric	82	67	48	52	24	46	56	65	72	87	91	99
Interest rates												
NBU's key policy rate (%, e.o.p.)	7.75	7.75	7.50	6.50	14.00	22.00	14.00	14.50	18.00	13.50	5.50	6.50
Fiscal balance												
Budget balance (% of GDP)	-5.9	-1.8	-3.8	-4.4	-5.0	-2.3	-2.9	-1.5	-2.4	-2.1	-6.0	-4.0
Public debt (% of GDP)	40.1	36.4	36.7	39.9	69.4	79.0	80.9	71.8	60.9	50.6	56.9	56.2

Source: Ukrstat, NBU, IMF, ICU.

Quarterly forecast 2020–21

	Historical data									Forecast by ICU						
	1Q18	**2Q18**	**3Q18**	**4Q18**	**1Q19**	**2Q19**	**3Q19**	**4Q19**	**1Q20**	**2Q20**	**3Q20**	**4Q20**	**1Q21**	**2Q21**	**3Q21**	**4Q21**
Gross domestic product																
Real GDP (%, YoY)	3.5	3.9	2.7	3.7	2.9	4.7	3.9	1.5	-1.5	-10.0	-8.5	-5.9	-1.3	8.6	8.1	6.7
Nominal GDP (UAHbn)	706	810	995	1,050	815	933	1,112	1,115	872	871	1,060	1,109	858	945	1,181	1,249
Nominal GDP (US$bn)	26	31	36	38	30	35	44	46	35	32	39	40	32	36	42	44
Prices																
Headline inflation (%, YoY, e.o.p)	13.2	9.9	8.9	9.8	8.6	9.0	7.5	4.1	2.3	1.9	2.2	4.2	5.3	5.3	5.4	5.3
Headline inflation (%, YoY, avg.)	13.8	11.5	8.9	9.7	8.9	9.1	8.5	5.2	2.6	1.9	1.9	3.5	5.1	5.3	5.4	5.3
GDP deflator (%, YoY)	15.1	17.4	16.0	13.5	12.2	9.9	7.6	4.7	8.6	3.8	4.2	5.7	-0.2	0.0	3.1	5.6
Exchange rates																
UAH/USD (avg.)	27.28	26.18	27.37	27.92	27.31	26.52	25.21	24.22	25.09	26.96	27.47	28.02	27.20	26.52	27.98	28.52
UAH/USD (e.o.p.)	26.27	26.34	28.24	27.72	27.31	26.16	24.36	23.81	27.59	27.00	27.60	28.50	26.50	27.00	28.50	29.00
Interest rates																
NBU's key policy rate (%, e.o.p.)	17.00	17.00	18.00	18.00	18.00	17.50	16.50	13.50	10.00	6.50	5.50	5.50	5.50	5.75	6.00	6.50

Source: Ukrstat, NBU, ICU.

Disclosures

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Buy: Forecasted 12-month total return greater than 20%

Hold: Forecasted 12-month total return 0% to 20%

Sell: Forecasted 12-month total return less than 0%

Note: total return is share price appreciation to a target price in relative terms plus forecasted dividend yield.

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