Focus
Ukraine

Scope
Economics

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Macro Review

Ukrainian Economy: Stuck in Limbo

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Executive Rundown

Ukraine's economic recovery will be gradual, not impressive, but not too disappointing either. In 2020, the relative resilience of the economy could be explained by its structure, macroeconomic reforms of previous years, favourable terms of trade, and a sharp adaptation of the population and business against the background of rather weak fiscal stimuli. In 2021–22, the ability to vaccinate the population and avoid strict quarantine restrictions amid the spread of new, more dangerous strains of coronavirus will play a key role. Ukraine's capacity in this area remains very weak, which significantly limits the potential for economic recovery. Meanwhile, the world is being vaccinated and opening even faster than previously expected, generating stronger external demand for the Ukrainian economy. As a result, we downgrade 2021 GDP growth only slightly, to 5.2% compared with 5.6% in our December forecast, and project slowdown of 2022 GDP growth to 3.8%. However, this scenario is based on the assumption that 50% of Ukraine's population will be vaccinated by the end of the year, which requires significant progress. Should the pace of vaccination fail to accelerate, recovery will be slower due to additional quarantine restrictions.

Macroeconomic imbalances appear to be manageable, but require attention and reaction from the authorities. We consider a surge of inflation to 8.5% YoY in March to be temporary and caused primarily by external factors. Nonetheless, some contribution was provided by the 20% increase in the minimum wage at the beginning of the year and a relatively stable recovery of consumer demand. However, decisive hikes of the key policy rate by the NBU to 7.5% and strong commitment to achieve inflation targets, along with expectations of a good harvest of agri crops this year underline our forecast of inflation returning to 5% in 1H22. Additional determinant of this forecast is the relative stability of the UAH exchange rate, which we forecast to fluctuate in the range of UAH27.5–28.5/US$ against the background of balanced external economic accounts in 2021–22. Thus, the C/A will remain in surplus of about 1% of GDP this year and then turn to a deficit of 2.3% of GDP in 2022, which will be offset by the resumption of net inflows of private capital. The situation may worsen if prices for key export commodities fall more sharply and/or consumer inflation in AEs rises noticeably causing leading central banks to tighten. In this case, devaluation pressure on the UAH may intensify significantly, as the FX market remains very vulnerable to changes in global conditions in both commodity and financial markets.

The key challenge for authorities is securing funds to meet elevated financial needs. Although we expect a lower-than-planned and moderate-compared-with-peers budget deficit of 4.5% of GDP in 2021 and 3.0% of GDP in 2022, financing this deficit and sizable external and domestic debt repayments remains a huge challenge for the government. This year, the situation is mitigated by the fact that Ukraine should receive c.US$2.7bn from the IMF's SDR allocation, which may be directed to MoF coffers. Nevertheless, it will not prevent the MoF from the need to tap into the international capital markets. A successful review of the IMF programme would allow the MoF to replace a part of Eurobond issues with cheap official financing and lower the cost of market borrowings. Thus, despite little tangible progress with the IMF so far, based on the cost-benefit considerations and authorities' intention to continue a collaboration, we expect the first review of the IMF programme to be completed by September. Otherwise, external debt servicing will grow by US$30–50m in 2021 and by US$100-150m in 2022, by our estimates. Combining that with other losses and taking into account that IMF lending acts as a "seal of approval" for national economic policies catalysing private investment, we see tighter fiscal policy, weaker economic growth, and lower social standards as obvious economic consequences of the lack of a well-functioning IMF programme. Meanwhile, even in such a scenario, we assess that the government will be able to avoid significant macro financial turbulence paying for the lack of a well-implemented IMF programme by lowering long-term economic potential.

The following section will provide an overview of our baseline scenario in detail. The next sections will examine the most important risks to this scenario. First, we assess how the potential deterioration in external financial and trade conditions may hurt the Ukrainian economy. Then we analyze the vaccination rate in Ukraine in more detail and the possible outcomes for the economy. And last, but not least, we draw attention to the government's option to finance its elevated needs should IMF and other official financing not be secured.

Baseline scenario: gradual recovery

- **Global economic recovery ensures relatively benign conditions for EMs while persistent rising inflation in AEs may lead to a more challenging environment**
- **Ukraine's economic recovery has been slightly disappointing at the beginning of the year, but an expected relatively rapid sequential expansion in 2H21 should ensure that 2021 GDP growth reaches 5.2%. Then we expect a slowdown of economic growth to 3.8% in 2022**
- **We consider the current upturn in consumer inflation as rather temporary and project a return to target range of 5% +/- 1 p.p. in 1H22**
- **NBU will keep the rate at 7.5% to 2Q22, then cut it to 7%**
- **Fiscal performance in 2021 is expected to be better than planned, but elevated financial needs remain a serious challenge for the MoF**
- **UAH is likely to fluctuate in a relatively tight range of UAH27.5–28.5/US$ on forecast horizon, as gradual recovery of private capital flows and new official financing will compensate worsening C/A balance**

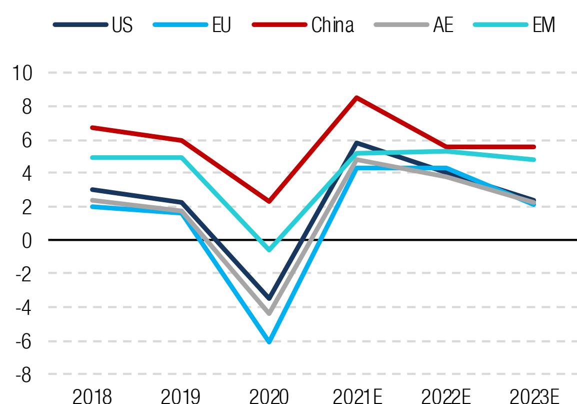
Multi-speed recoveries and rising risks for EMs

Global economic outlook remains benign thanks to ongoing vaccine rollout and hefty stimulus in major economies

Global economic perspectives are promising despite financial market sentiment, which has been undermined by inflation fears and rising US Treasury yields. While global mobility restrictions are still roughly the same since the start of the year, the pace of vaccinations is encouraging. Rare examples like Israel show that a high percentage of vaccinations does result in rapidly restoring mobility and business activity. The consensus forecast of world GDP real growth keeps being revised up and is currently at 5.5–7% in 2021, and 4–4.5% in 2022. However, this forecast is subject to high uncertainties relating to the efficacy of vaccines with new COVID-19 strains, effectiveness of policy actions, economies' adaptability, and financial markets' reaction.

Chart 1. Consensus forecast of real GDP growth of AEs and Ems, %

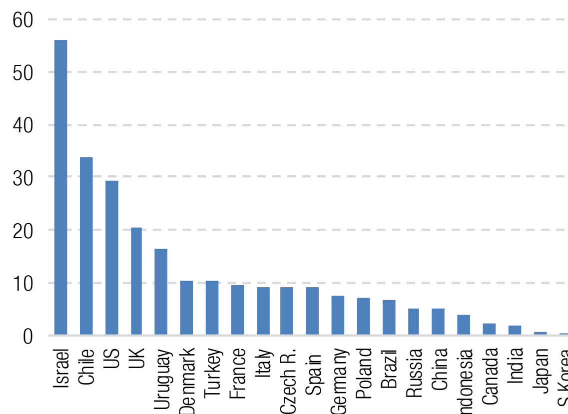
US and China economies likely to rebound sharply in 2021-22, leaving behind other AEs and low-income EMs



Source: Bloomberg, ICU.

Chart 2. Administered full anti-COVID-19 vaccinations, % of population

Stark differences in vaccine rollout will cause diverging recovery speeds across regions and countries



Source: Bloomberg, ICU.

Moreover, the speed of recovery will substantially differ across regions, countries, and economic sectors. Most likely, the US and China will lead the recovery, while EU and emerging markets will lag behind. Manufacturing sectors have fully recovered and in some cases even surpassed pre-COVID-19 levels, while the majority of services remains depressed.

High inflation is likely to persist and may even further accelerate in the US; this may ultimately cause tightening global financial conditions

One of the main outcomes of loose policies, inflation, will accelerate in most AEs and some EMs over the coming months, boosted mainly by soaring prices for energy, grains, and other commodities, as well as by shortages in supply of some goods. While inflation should moderate in most countries by the end of 2021, it may remain high or even further accelerate in the US due to powerful fiscal stimulus and an inflation-tolerant Fed. The perspectives of fast economic recovery and the threat of accelerating inflation in the US raise market fears about the Fed starting to taper asset purchases and/or hike rates sooner than expected, which may ultimately lead to a spike in US Treasury yields and a sell-off of risky assets. These fears have already started to be realized in growing US T-yields and the strengthening USD.

EM economies should accelerate thanks to improving foreign trade and strong commodity prices; however, they may face much more challenging conditions in 2H21–2022

Despite their much lower access to vaccines, most EMs should see accelerating economic growth, driven by vaccinations in AEs, resulting AE stronger demand for EM exports, and high commodity prices. However, policy in EMs is already becoming less accommodative as a number of EM central banks have hiked key policy rates. Policy tightening is likely to continue in 2H21, much reinforced by normalizing policy in China. Slowing China credit stimulus will also be a strong headwind to commodity prices. Higher US Treasury yields, a stronger US dollar, weaker commodity prices, and more market fears about a coming Taper Tantrum-2 may create a much more challenging environment for EMs, including Ukraine, in 2H21 and 2022.

Economic activity: no boost, but no bust

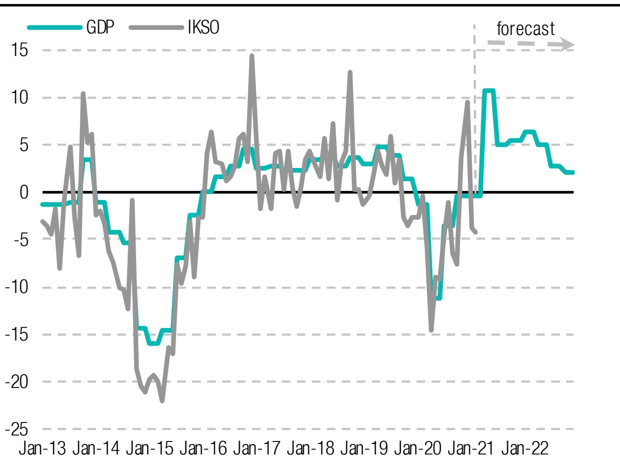
Worsening virus outbreaks and regional lockdown measures weigh on economic recovery in 1H21…

After a strong rebound in 2H20, economic activity in 1Q21 was rather disappointing. Temporary factors such as the calendar effect, difficult weather conditions, and the toll from last year’s poor harvest played a major role, while the drag from lockdowns intensified. The current pandemic wave has been especially painful from a health perspective; however, economic output looked surprisingly resilient. First, relative to the “first wave” in spring 2020, the incremental tightening in social distancing measures has been more limited and risen only slightly. Second, the economy has become better adapted to living under lockdown restrictions and the relationship between economic activity and lockdown measures appears weaker now than it did during the first wave. Anyway, we expect that GDP contracted c.0.5% in 1Q21, both on a YoY and QoQ SA basis.

Moreover, worsening virus outbreaks and regional lockdown measures are weighing on economic recovery in 2Q21. In addition, rising geopolitical tensions put a drag on business sentiment and investment decisions, although marginally. On the other hand, these negative effects should be partially offset by favourable terms of trade and the ongoing global economic recovery boosted by vaccine roll-out. In addition, fuelled by further increases in household incomes, consumer demand should continue to grow. As a result, given the low statistical base of comparison, YoY growth rate of GDP in 2Q21 is expected to be double-digit.

Chart 3. GDP and Index of key sectors' output, % YoY

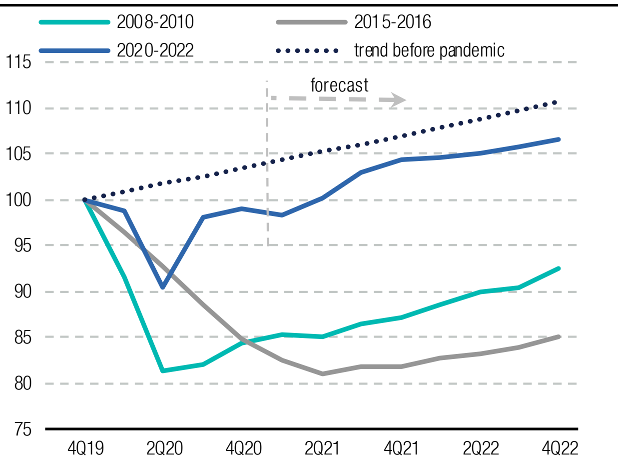
Fast growth of GDP in following quarters is determined by low statistical base, gradual vaccination roll-out, and boost from agricultural output



Source: UkrStat, NBU, ICU.

Chart 4. GDP, SA levels, 1Q=100

Pandemic imposes short-term pain on economic growth, but long-term losses for GDP level are still much lower than the previous crises



Source: Ukrstat, ICU.

---followed by a relatively rapid sequential expansion in 2H21

Then, in 2H21, we forecast that the vaccine roll-out will drive a relatively rapid sequential expansion, as our baseline scenario assumes that about 50% of the population will be vaccinated by the end of 4Q21. Herd immunity will not achieved before next cold season, but the most vulnerable groups of the population will have been vaccinated, which would allow the country to avoid the most disruptive lockdown restrictions. Besides, better weather conditions should ensure a good harvest leading to a strong boost from the agricultural sector and food industry. The worsening of terms of trade, caused mainly by downward correction of steel, iron ore, and agri prices, will be a drag on further recovery. Monetary and fiscal conditions will turn to neutral after the period of stimulus that supported the economy hit by lockdowns.

We downgrade 2021 GDP growth to 5.2% and project slowdown of 2022 GDP growth to 3.8%

For the full year, we revise our GDP growth forecast downward to 5.2% from 5.6% in the December projection, as the toll from lockdowns amid sluggish vaccination appeared more severe than we assumed. Partially, these pandemic-induced effects are compensated by upward revision of global economic recovery and better terms of trade. As a result, in 2H21, the level of GDP will be just 2.5–3.0% lower than the pre-pandemic trend. We do not expect this gap to be closed on the forecast horizon, as sequential growth should slow further (see our Macro Review September 2020 for assessment of the pandemic's effect on potential growth).

In 2022, we see an additional boost for the economy from lifting restrictions and stronger investments, partially supported by credit recovery. However, less supportive terms of trade will put a drag on fast recovery and formation of a positive output gap. Moreover, we assume some negative externalities from continuation of fiscal consolidation restraining further expansion of consumption.

Nevertheless, on our forecast horizon, consumption will remain the key driver of economic growth. As the pandemic and geopolitical risks gradually fade, we may expect a gradual recovery of investment demand. Government initiatives and projects may provide some additional impulse, but rather limited on the forecast horizon.

Inflation pressure is contained by NBU's reaction

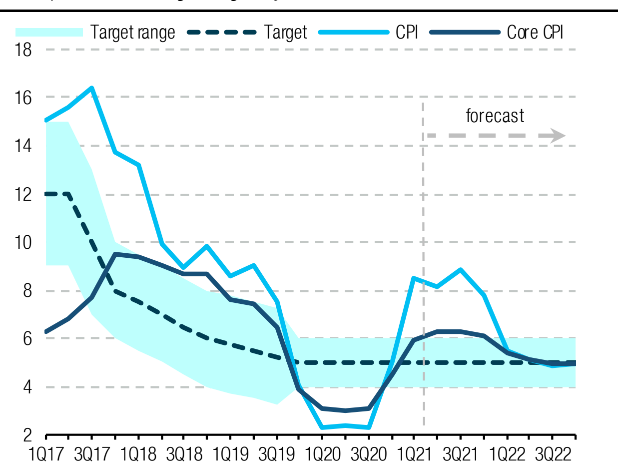
We consider the current upturn in consumer inflation as rather temporary and project a return to target range in 1H22

In 1Q21, consumer inflation surged to 8.5% YoY from 5.0% YoY in December 2020. That was primarily driven by supply-side factors reflected in food and fuel prices, while fundamental pressures remain relatively moderate and core inflation continued to be within the target range of the NBU so far.

Looking ahead, we expect that the CPI growth rate will remain close to the current level. On one hand, food prices, which have risen rapidly in recent months, are already beginning to stabilize. In particular, in March, the FAO grain and sugar price indexes even declined compared with February amid expectations of good harvests and increased supply. On the other hand, the prices of other food products, especially those with a higher level of value added, will continue to grow at a high pace due to the increase in the cost of their production.

Chart 5. CPI, core CPI, and target, % YoY

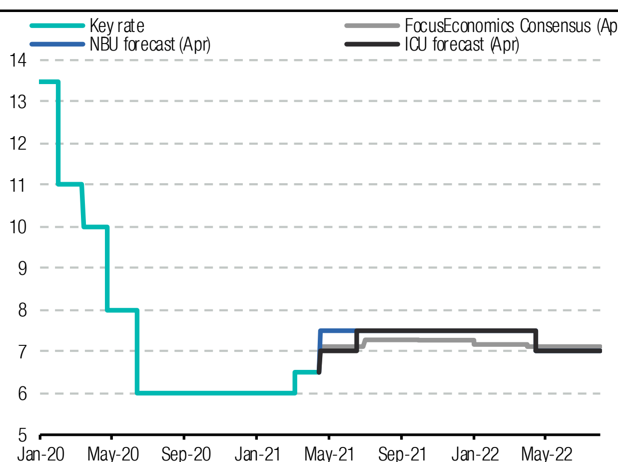
Both headline and core inflation accelerated sharply since October 2020, and we expect return to target range only in 2022



Source: UkrStat, NBU, ICU.

Chart 6. NBU rate forecast, %

Key rate will remain at the current level for about a year and then will be lowered to 7%



Source: Ukrstat, ICU.

In 2H21, amid a gradual economic recovery and increased capacity utilization, fundamental inflationary pressures should intensify. At the same time, the entry of a new crop into the market should help reduce food inflation. Therefore, due to the ongoing surge of global food and fuel prices, we have revised our forecast of year-end inflation upward to 7.8% YoY.

NBU will keep the rate at 7.5% to 2Q22, then cut it to 7%

So has the NBU, raising its forecast of inflation to 8%. Despite the predominance of non-monetary factors of rising inflation, slowing economic recovery due to tightening of quarantine restrictions, and the importance of restoring lending in the rhetoric of authorities, the NBU increased the rate in total by 150bps to 7.5%. Such decisive reaction was caused by rising geopolitical risks, the danger of inflation-expectation deterioration, and still imperfect credibility of the NBU's inflation targeting framework. Both we and the NBU expect that the rate will be kept at the new level for about a year with a further decrease to 7%.

This will ensure neutral monetary conditions and the real interest rate in the range of 1–2% after a period of moderately loose monetary conditions since mid-2020, when the real interest rate fluctuated mainly in the range of 0–1%. In its turn, such monetary conditions accounting for other factors should ensure inflation returning to the target of 5% in 1H22.

Fiscal policy: consolidation amid financing constraints

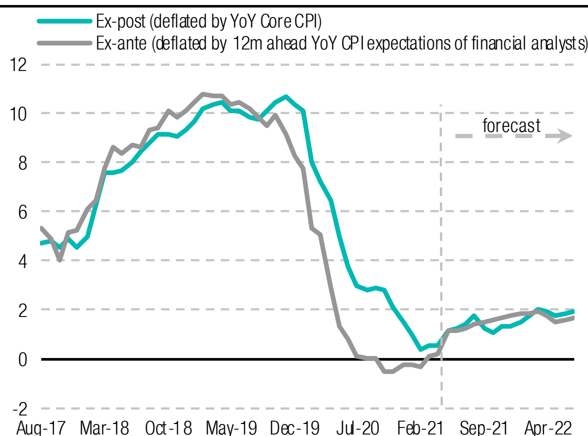
Fiscal performance in 2021 is expected to be better than planned

Despite the toll of the pandemic and lockdown, fiscal performance at the beginning of the year was encouraging. For instance, in 1Q21, revenues of the general fund exceeded plan by 4.7% or UAH10bn. Mainly this was caused by higher inflation, especially for traded commodities.

At the same time, traditionally, the execution of expenditures has been lagging, and they were 8.3% lower compared with plan. Incorporating this more favourable starting point, we expect that for full-year 2021, the deficit will be lower than planned, as was the case in previous years. First, a better price environment will continue to generate additional revenues. Second, the tough situation with ensuring budget financing will push the government to implicitly restrain expenditures. As a result, we expect the deficit to shrink to c.4.5% of GDP compared with 5.5% of GDP in the Budget Law. Fiscal consolidation will continue next year with the deficit plummeting to 3% of GDP vs 3.5% of GDP currently envisaged in the IMF forecast and in MoF plans.

Chart 7. NBU rate in real terms, %

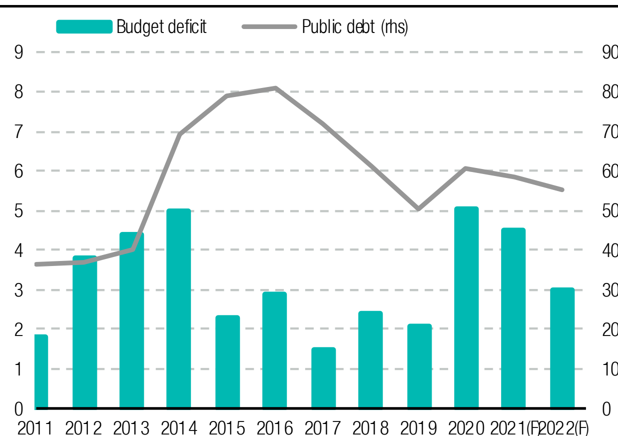
Monetary conditions switch from moderately loose to neutral and will stay so until end-2022



Source: UkrStat, NBU, ICU.

Chart 8. Stage budget and public debt, % of GDP

Gradual fiscal consolidation determines the return to downward trend in public debt



Source: MoF, Ukrstat, ICU.

But elevated financial needs are a serious challenge for authorities

However, even such a shrinking deficit creates for the MoF the challenging task of securing resources for deficit financing. Starting from 1Q21, this task has become increasingly complicated by worsening sentiment toward EMs globally and rising geopolitical tensions with Russia. As a result, we still believe that in such conditions the authorities will be able to agree on a successful review of the IMF programme before the peak of external debt repayments in September. Moreover, the anticipated IMF's SDR allocation in August–September should provide additional FX relief for the government. We assume that the major part of c.US$2.7bn allocated to Ukraine will be spent this year, and the rest of it next year.

The successful review of the IMF programme will allow the MoF to tap into international capital markets and borrow domestically in UAH with acceptable yields this year. However, pressing fiscal needs next year will again call for continuation of active cooperation with the IMF either under expansion of the ongoing SBA, or signing a more ambitious EFF programme.

Table 1. FX-denominated debt repayments and sources for financing for 2021 and 2022, US$bn

	2021	2022		2021	2022
Government FX accounts balance (beginning of the year)	2.1	2.1			
Government FX funding	10.2	8.6	Government FX debt payments	10.2	8.3
IMF	1.4	1.4	IMF	0.5	0.5
Eurobonds	1.5	1.5	Other IFIs	0.6	0.7
WB aid	0.5	0.5	Eurobonds	1.6	1.2
EU aid	0.7	0	US-backed Eurobonds	1.0	0.0
Domestic FX bonds	4.6	4.0	Other external debt repayments	0.1	0.1
SDR allocation	1.5	1.2	External interest payments	1.8	1.8
			Domestic FX bonds	4.6	4.0
Expected Government FX accounts YE	2.1	2.4			

Source: MFU, ICU.

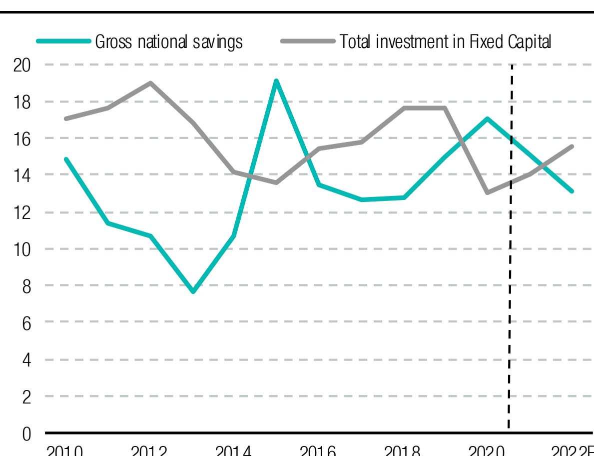
Better capital flows, worse current account, stable FX

2021 C/A remains in surplus of 1% of GDP, while it returns to a deficit of 2.4% of GDP in 2022

In 2020, the C/A surplus amounted to US$6.2bn (est. 4.0% of GDP) after four years of deficit. That was caused both by a pandemic-induced strong increase in the propensity to save and falling investment activity of business. We expect that these trends will reverse in 2021–2022. Meanwhile, still favourable terms of trade will limit deterioration of the current account balance in 2021, as the effect of higher average prices of exported commodities exceeds the surge in energy prices. Thus, we predict that the current account will remain in surplus of 1.0% of GDP. That said, we expect that the commodity-price environment will start turning from a tailwind to a headwind for the Ukrainian economy in 2H21, as prices for exported metals, ores, and grains will decline against the backdrop of prices for imported oil, oil products, and natural gas remaining strong. While the grain-price decline will be largely compensated by a better harvest, the outlook for iron ore and steel prices is subject to high downside risks stemming from cooling fiscal and monetary stimulus in China. In 2022, the declining trend in steel and iron ore prices will continue and together with a rebound of investment imports, will lead to further expansion of the trade deficit causing the return to current account deficit of 2.3% of GDP. We still consider such a deficit as sustainable for the Ukrainian economy, especially if it is covered by FDIs.

Chart 9. Saving–Investment balance, % of GDP

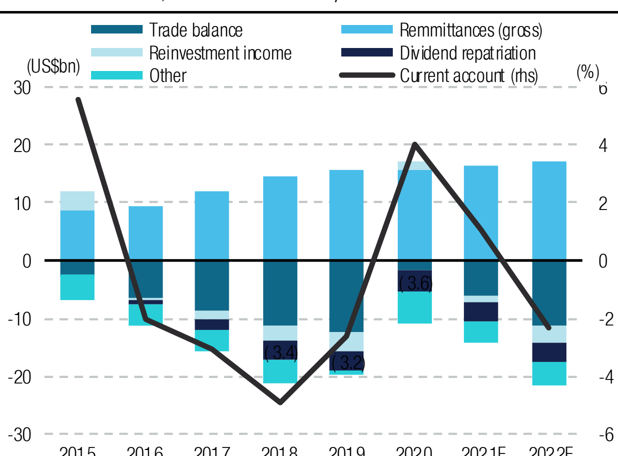
Higher propensity to consume and invest should lower savings-to-GPD ratio and boost investment to GDP ratio



Source: UkrStat, NBU, ICU.

Chart 10. Current account, US$bn, % of GDP

Ukraine's C/A surplus should shrink sizably in 2021, and turn into a 2.4% of GDP deficit in 2022, as the trade deficit expands



Source: MoF, Ukrstat, ICU.

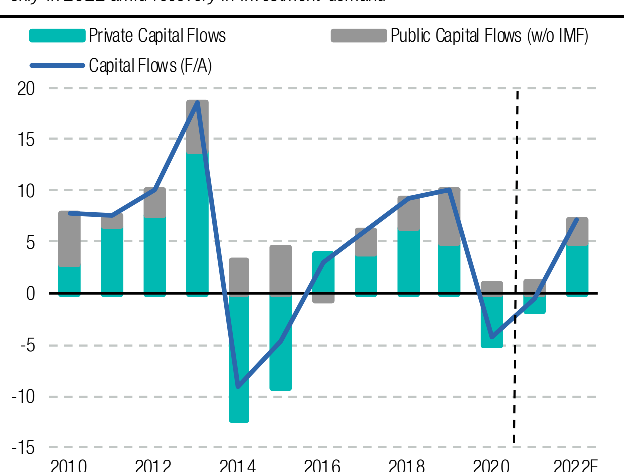
The recovery of private capital flows will be more gradual than assumed earlier

Uncertainty related to lockdown restrictions, tighter global financial conditions, and higher geopolitical risks will continue to restrain private capital inflows in Ukraine this year. While we projected net inflows earlier, it seems that Ukraine will show contraction of net foreign liabilities of the private sector for a second year in a row. However, this net outflow will be provided by a decrease of debt liabilities, while net FDI should reverse from negative to positive flows as the contribution of reinvested income will turn to positive again. In 2022, we forecast that recovery of investment activity will boost the inflows of private capital to the levels observed in 2016–19, about US$5bn.

As noted above, in 2021–22, capital flows in the public sector will remain positive as the MoF will combine concessional and market borrowings to finance a moderate budget deficit. Disbursement of the new IMF tranches and the US$2.7bn IMF SDR allocation will secure further reserves accumulation to 110–120% of the IMF's aggregate reserve adequacy metric.

Chart 11. Capital flows in financial account, US$bn

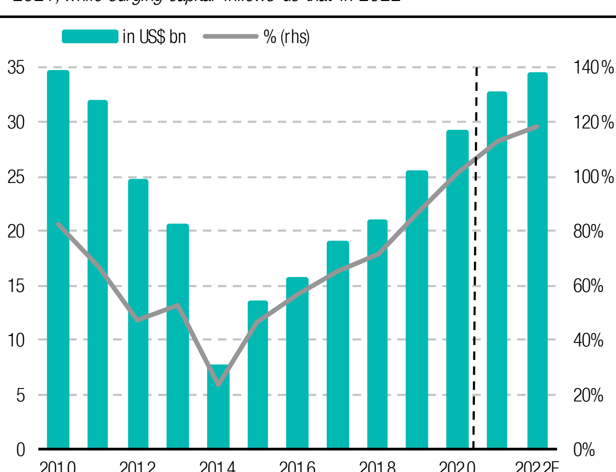
Net private capital flows remain negative in 2021, and return to positive values only in 2022 amid recovery in investment demand



Source: UkrStat, NBU, ICU.

Chart 12. Reserves (US$bn) and the ratio to IMF ARA metric (%)

IMF's SDR allocation of US$2.7bn provides the main boost for reserves in 2021, while surging capital inflows do that in 2022



Source: MoF, Ukrstat, ICU.

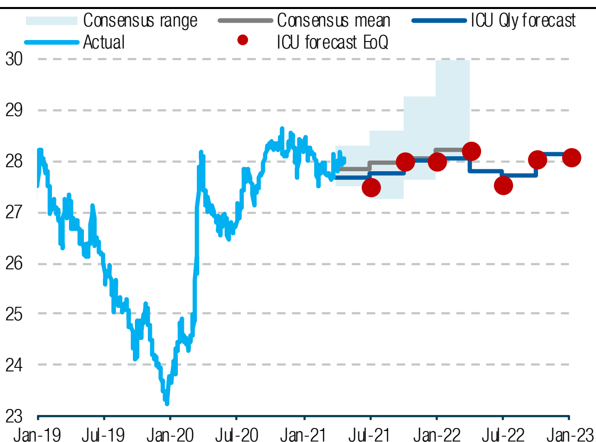
UAH is likely to fluctuate in a range of UAH27.5–28.5/US$ on forecast horizon

Hryvnia volatility sizably decreased during the last six months without NBU's strong involvement in the FX market. We expected stronger UAH appreciation in the spring based on favourable seasonality, the upward trend in prices of export commodities, and the rebounding global economy. However, worsening market sentiment towards EMs, rising tensions with Russia, and expanding lockdowns made the FX market more balanced.

Looking ahead, we project that this balance in the market will remain. While the positive effects from seasonality and favourable terms of trade will fade out gradually in the summer, the impact from negative factors will reverse as well. However, the disbursement of the IMF tranche and securing FX funds for peak repayments in September is a crucial assumption of this scenario.

Chart 13. UAH/USD forecast

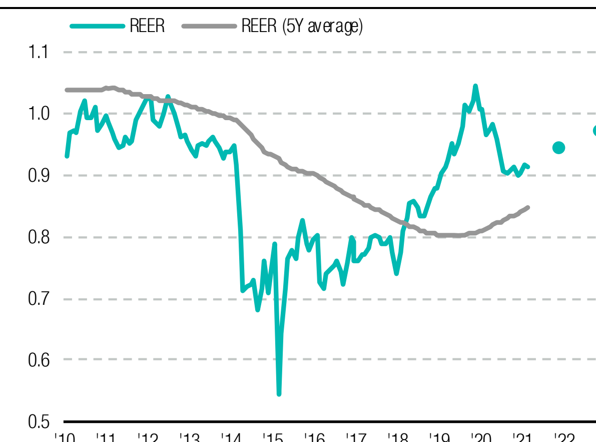
The volatility of UAH exchange rate against USD is expected to be relatively low



Source: NBU, Bloomberg, ICU.

Chart 14. Real Effective Exchange Rate (Dec 1999 = 1)

After sizable weakening last year, UAH REER has to appreciate in the medium term



Source: NBU, ICU

Real appreciation will be realized via higher inflation

In the medium term, we also believe that all factors listed above will offset each other and the FX market will remain rather balanced. Thus, a recovery of private capital inflows will be compensated by return to a current account deficit. Moreover, it seems that new NBU management keeps the relative stability of the exchange rate as one of the parameters in its monetary-policy reaction function. As a result, we project that UAH real exchange rate should be smoother on the forecast horizon than in the previous years. And the anticipated real appreciation will be realized mostly via higher inflation than that of trading partners.

Risk #1: Tightening global financial conditions

Preconditions: rising inflation globally

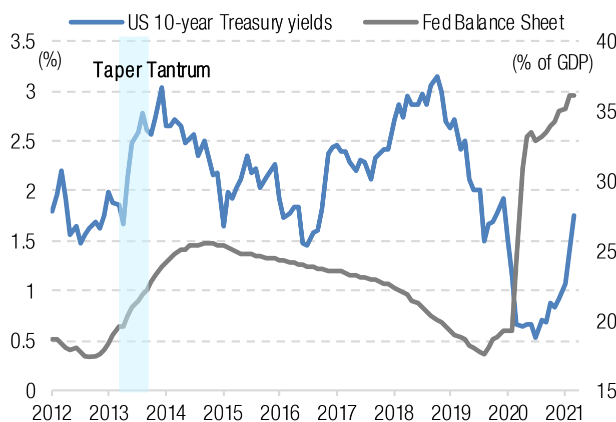
Amid surging inflation, Fed may switch to tighter monetary policy earlier than the market expects

Inflation is likely to rise sharply in most AEs and major EMs in 2Q–3Q21 due to soaring energy prices, higher taxes, and supply shortages. While high inflation is likely to be transitory in most countries, there is a high risk that inflation will further accelerate and persist in the US due to a tighter labour market and the Fed's more inflation-tolerant approach compared with other central banks. As the US is currently on a path of fast economic recovery and fast job gains, this may precipitate curtailing of Fed asset purchases and/or hiking rates sooner than expected. In 2013, a similar turnaround in Fed policy caused a spike in US Treasury yields and a sell-off in risky assets including EM credit in a market-panic reaction dubbed the Taper Tantrum.

While the US central bank's policy normalization will be more cautious this time, the likelihood of Taper Tantrum-2 has been enhanced by unprecedented capital inflows into commodities, equities, and EMs. Financial markets have already reacted to US stimulus programmes, rising inflation risks, and the Fed's accommodative stance with US T-yields growing 70bps to 1.7% during 1Q21.

Chart 15. Fed asset purchases (% of US GDP) and 10yr Treasury yield (%)

As history of Taper Tantrum of 2013 shows, surge in T-yields may substantially fore-run actual tapering of asset purchases by the Fed



Source: Bloomberg, IMF, ICU.

Chart 16. EMBI Global Index spread of EM USD-denominated debt, bps

EM spreads may widen substantially again if fears of policy tightening escalate

Source: Bloomberg, ICU.

Outcomes for Ukraine: ebbing capital flows, costlier credit, and weaker UAH

Tighter global financial conditions would mean for Ukraine lower capital inflows, more expensive credit, and a weaker UAH

While the IMF in its April WEO seemingly dismissed rising concerns over higher inflation and interest rates in advanced economies spilling over to tighter financial conditions in EM/FM, we do not rule out such a scenario completely.

Realisation of higher inflation in the US and worsening inflation expectations may fuel the trend of rising US Treasury yields to run further and support the US dollar. This would weigh on commodity prices and diminish attractiveness of risky assets competing with US Treasuries including commodities, EM equities, and EM debt instruments. As a result, EMs,

which are most dependent on external financing and commodity trade, will become more vulnerable. We assume that if the current tightening of global financial conditions persists, it could lead to a wider divergence between riskier EMs and their more stable peers.

Unfortunately, it seems that Ukraine tilts more to the first group; however, it is not among the most vulnerable economies in terms of external liquidity or balance-of-payments pressure.

Table 2. Ukraine vs selected EM countries: Key metrics

Country	DEBT RISK			LIQUIDITY RISK			FX RISK			MACRO RISK		
	Public Debt to GDP	Fiscal Bal to GDP	Debt service to Revenues	Reserves to STD by RM	Eurobonds service to Reserves	Ext Debt service to Revenues	Reserves to ARA metric	CAB to GDP	REER to 5Y av	CPI	GDP	IP
	2021	2021	2021	last data for reserves, 2020 for STD by RM	last data for reserves, 2021 for Eurobonds service	2021	last data for reserves, 2020 for ARA metric	2021	last data	last data	4q ma	6m ma
	%	%	%	%	%	%	%	%	%	yoy %	yoy %	yoy %
Ukraine	**60.7%**	**-4.5%**	**4.8%**	**75.3%**	**4.5%**	**4.9%**	**86.1%**	**1.0%**	**1.8%**	**8.5%**	**-4.1%**	**-2.3%**
Hungary	80.6%	-8.5%	4.6%	182.4%	n/a	n/a	106.4%	-0.4%	-3.6%	3.7%	-5.1%	0.9%
Poland	57.5%	-8.2%	3.3%	99.8%	n/a	n/a	141.5%	2.0%	1.4%	3.2%	-2.7%	4.4%
Romania	51.4%	-9.7%	4.6%	77.1%	n/a	n/a	98.3%	-5.0%	2.8%	3.1%	-3.6%	-1.4%
Israel	75.7%	-11.8%	5.7%	n/a	n/a	n/a	383.5%	4.1%	3.1%	0.2%	-1.2%	2.0%
Turkey	36.9%	-5.4%	6.4%	27.2%	17.2%	5.2%	41.1%	-3.4%	-13.9%	16.2%	1.6%	9.8%
Russia	18.7%	-4.1%	1.4%	335.4%	4.4%	3.3%	241.2%	3.9%	n/a	5.8%	-2.9%	-1.5%
Kazakhstan	27.2%	-7.3%	-3.7%	87.2%	2.9%	3.1%	65.1%	-1.0%	n/a	7.0%	-1.1%	-1.5%
Armenia	66.3%	-6.9%	11.5%	419.3%	2.2%	9.8%	88.2%	-6.7%	n/a	5.3%	n/a	-4.2%
Azerbaijan	26.2%	-6.4%	2.1%	n/a	1.2%	10.0%	n/a	1.1%	n/a	3.9%	n/a	0.2%
Georgia	62.2%	-9.3%	6.2%	127.0%	0.9%	8.3%	102.9%	-11.5%	n/a	7.2%	-5.8%	2.2%
South Africa	78.9%	-12.2%	16.4%	56.0%	26.8%	15.1%	58.2%	-0.4%	-0.8%	2.9%	-6.7%	-2.4%
Egypt	91.5%	-7.9%	47.5%	220.1%	2.2%	4.4%	58.1%	-4.0%	n/a	4.5%	n/a	n/a
Morocco	76.6%	-7.6%	8.8%	1107.3%	0.7%	5.5%	107.1%	-3.8%	1.3%	0.3%	-7.0%	n/a
Pakistan	87.4%	-8.0%	41.5%	119.0%	3.4%	10.4%	38.7%	-1.5%	-7.4%	9.1%	n/a	n/a
Indonesia	39.0%	-5.9%	16.5%	211.2%	5.1%	9.6%	123.9%	-1.3%	-1.6%	1.4%	-2.0%	n/a
Malaysia	67.2%	-5.1%	8.8%	86.2%	n/a	n/a	115.1%	3.8%	-2.3%	0.1%	-5.6%	0.4%
Philippines	49.5%	-5.5%	10.1%	420.9%	2.5%	5.7%	239.3%	-0.4%	6.6%	4.5%	-9.3%	n/a
S. Korea	50.9%	-2.8%	-2.2%	196.7%	n/a	n/a	118.2%	4.2%	n/a	1.5%	-0.9%	2.7%
Argentina	51.5%	-8.9%	7.5%	51.6%	63.0%	19.5%	68.4%	2.3%	-17.0%	35.0%	-9.9%	1.1%
Brazil	98.7%	-13.4%	14.3%	185.9%	0.6%	1.6%	138.0%	-0.6%	-25.0%	6.1%	-4.1%	3.0%
Chile	33.1%	-7.1%	2.4%	102.1%	n/a	n/a	85.9%	0.3%	-3.1%	2.9%	-5.9%	-0.7%
Mexico	60.6%	-4.6%	16.1%	215.8%	5.3%	4.5%	116.8%	1.8%	0.6%	4.7%	-8.2%	-4.2%
Peru	35.4%	-8.4%	7.9%	476.5%	1.5%	5.2%	254.8%	-0.4%	-7.8%	2.6%	-11.1%	-10.7%
Colombia	63.5%	-6.9%	9.8%	151.2%	4.6%	5.5%	146.4%	-3.8%	-8.3%	1.5%	-5.6%	-6.9%
Angola	118.9%	-1.7%	35.2%	511.1%	1.2%	28.3%	79.2%	0.8%	n/a	5.8%	n/a	n/a
Ivory Coast	46.0%	-5.9%	13.6%	n/a	11.6%	10.2%	n/a	-3.6%	n/a	3.2%	n/a	n/a
Senegal	66.3%	-6.4%	10.3%	n/a	3.2%	10.6%	n/a	-12.8%	n/a	2.1%	n/a	14.1%
Kenya	70.1%	-8.4%	22.0%	n/a	3.3%	12.5%	n/a	-5.3%	n/a	4.7%	1.0%	-2.2%
Uzbekistan	40.1%	-3.3%	-0.2%	n/a	0.0%	1.9%	n/a	-6.4%	n/a	11.6%	n/a	n/a
Zambia	118.2%	-13.9%	28.2%	n/a	28.6%	20.0%	n/a	6.5%	n/a	22.8%	n/a	n/a
Nigeria	33.5%	-5.8%	33.7%	n/a	2.7%	3.7%	n/a	-2.2%	-0.7%	18.2%	-1.9%	n/a
Ghana	79.7%	-16.0%	54.9%	n/a	20.8%	25.2%	n/a	-2.8%	-9.7%	10.3%	2.1%	n/a

Note: GDP 4q ma indicates GDP growth rate, moving average for the last four quarters; IP 6m ma indicates industrial production growth rate, moving average for last six months.

Source: Bloomberg, IMF WEO (October 2020), IMF International Investment Position, WB International Debt Statistics, IMF Assessing Reserve Adequacy DataMapper ICU.

Ukraine has a relatively moderate public debt burden, especially assuming fiscal consolidation planned this and next year. However, liquidity risk is rather high as a high share of external liabilities in public debt and their prevailing short maturity determine a tough repayment schedule. Moreover, having fallen in 1Q21, international reserves are still below the minimum level of the IMF's ARA metric. Meanwhile, an improved current account position

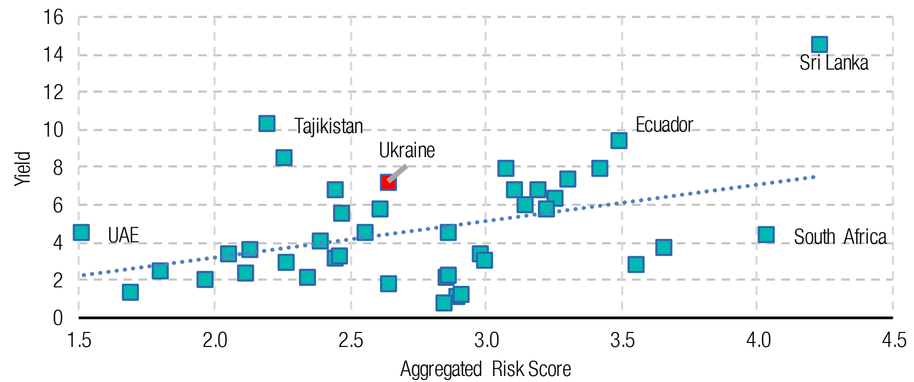
evidences lowering risks for external sustainability and provides some relief from potential FX market pressure.

Ukraine is vulnerable primarily due to high share of FX and short-term liabilities in public debt, weak institutions, and elevated geopolitical risk

In addition, yields for Ukrainian bonds are likely to include additional premium, reflecting recent intensified tensions with Russia and weak institutions. Successful implementation of the IMF programme could lessen the risks; however, instead, weak progress with the first review creates additional concerns for investors.

Chart 17. Ukraine vs selected EM countries: YTM for benchmark (c.10Y) Eurobonds and Aggregated Risk Score

Yields for Ukrainian bonds exceed "equilibrium" level, probably reflecting geopolitical risks and weak institutions



Note: We assign a numerical score from 1 to 5 with higher numbers corresponding to greater vulnerability based on selected thresholds. Then we calculate an aggregated risk score for each country based on the weighted average of all available indicators. Weights are based on expert judgments regarding relative importance of factors and categories of factors. For instance, macro-risk indicators have lower weights compared with ones from other categories.

Source: Bloomberg, ICU.

Risk #2: Sharp fall in export prices

Preconditions: China policy tightening, rising US T-yields, stronger USD

Fading policy stimulus in China, rising US Treasury yields, and strengthening USD are the key risk factors for commodity prices, particularly metals

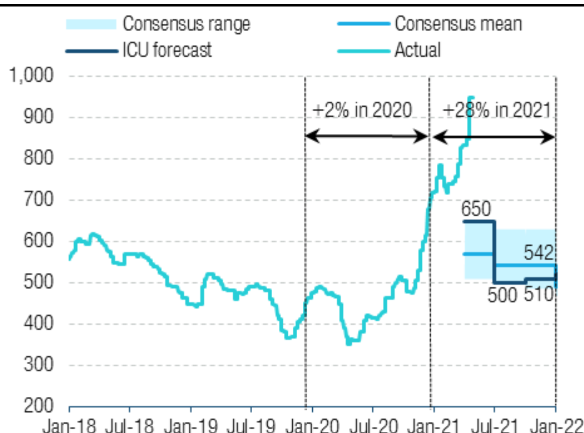
A likely further increase in US Treasury yields and strengthening of the USD amid growing inflation concerns may have a significant negative impact on commodity prices in 2021 and 2022. However, even stronger headwinds may come from one of the world's key commodity purchasers, China. In 2020, the efforts of China regulators on supporting the country's economy from COVID-19 damage led to an acceleration of credit stimulus growth, which also spilled over to commodity markets and boosted prices for key raw materials, particularly metals. Having gotten the pandemic under control, it no longer needs as much monetary and fiscal support, and the Chinese authorities have focused on reducing the risks of an overleveraged and overheated economy. China's tighter policy may offset the positive effect of the rest of the world's economic recovery on demand for commodities, and may be further exacerbated by a sharp drop in investment demand.

Across global commodities, metals are most vulnerable to China policy tightening. Stimulus withdrawal may be particularly negative for iron ore and steel, which became the top price gainers in 2020, despite the world economic recession.

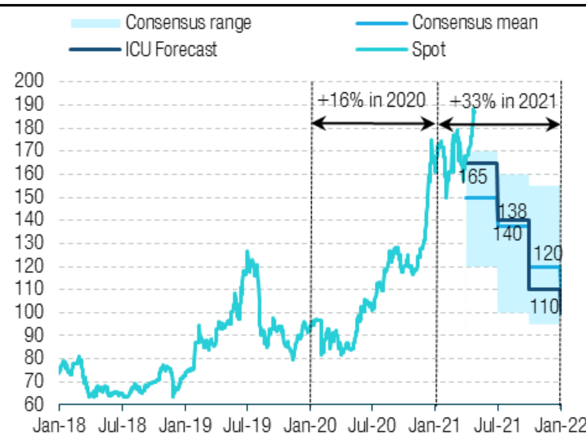
Chart 18. Steel HRC price in Black Sea region (US$/t)

Chart 19. Benchmark iron ore prices (US$/t)

Prices for steel and iron ore are particularly vulnerable to likely curtailment of policy stimulus in China



Source: Bloomberg, Refinitiv, ICU.

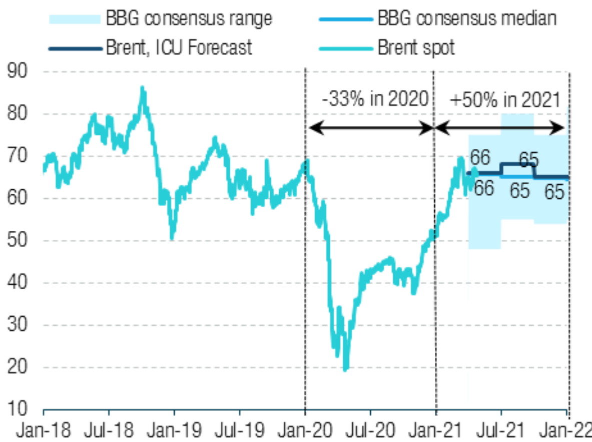


Source: Bloomberg, Refinitiv, ICU.

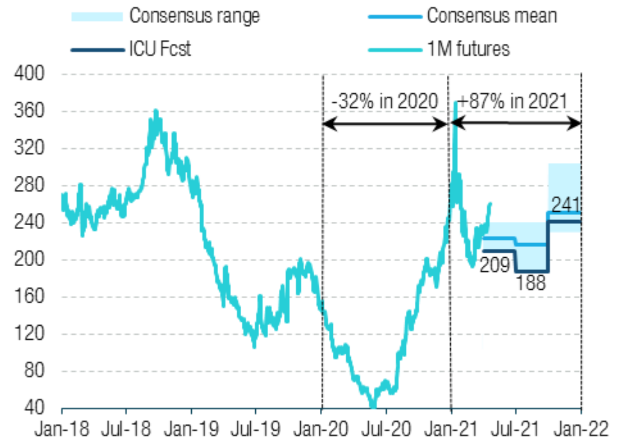
At the same time, oil and natural gas prices look least exposed to downside risks thanks to expected recovery in the world's mobility, economic activity, and international trade. Additional support for oil and gas prices comes from supply constraints resulting from OPEC+ output restrictions and underinvestment of non-OPEC producers. As a consequence, oil and natural gas prices are likely to significantly outpace growth in metal prices in 2021 and 2022.

Chart 20. Oil prices (US$/bbl) **Chart 21. Natural gas prices in Europe (US$/tcm)**

Supply constraints and coming recovery of global mobility and business activities make oil and natural gas less exposed to downside risks across commodities



Source: Bloomberg, Refinitiv, ICU.



Source: Bloomberg, Refinitiv, ICU.

Ukraine's sensitivity to commodity prices is high

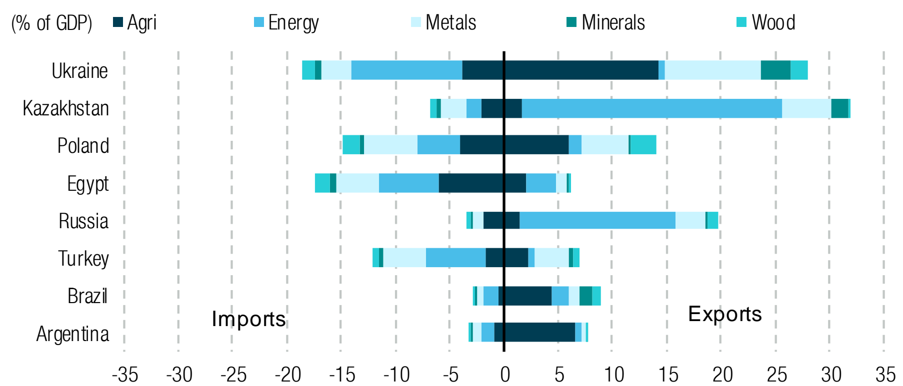
Ukraine's high exposure to external commodity trade makes it particularly vulnerable to volatility of commodity prices

Ukraine's exposure to external commodity trade is one of the highest among EMs, both on the imports and exports side. Around 60–70% of Ukrainian exports are highly dependent on commodity markets of steel, ore, and agri products. At the same time, at least 30% of Ukrainian imports depend on the prices of energy resources such as natural gas, oil, and coal.

Subject to different market conditions and drivers, energy prices quite often do not move in tandem with prices for steel, ore, and grains. During the years energy prices outperformed prices for grains and metals, Ukraine saw an expanding trade deficit, which put additional pressure on the hryvnia.

Chart 22. External commodity trade breakdown as a % of GDP of selected EMs (2018),

Ukraine's exposure to external commodity trade is one of the highest among EMs



Source: World Bank, NBU, ICU.

Energy prices outpacing growth in prices for steel and iron ore may cause significant expansion of Ukraine's trade deficit…

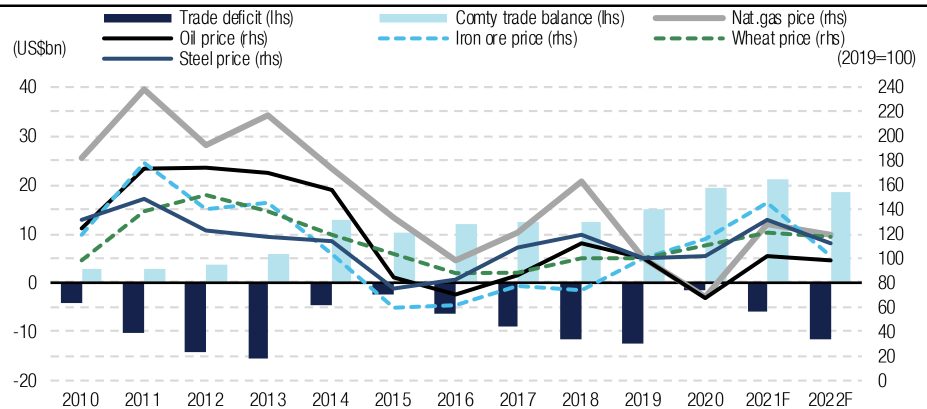
The COVID-19 crisis played in favour of Ukraine's highly commoditized trade in 2020, as a sharp drop in imported energy prices was accompanied by much more moderate decline or even growth in prices of exported metals and agri products. As a result, Ukraine's trade deficit shrank 86% to $1.7bn or 1% of GDP. As in 2021, prices for natural gas and oil will grow 30-40% faster than prices for steel, iron ore, and grains. This should contribute to expansion of the trade deficit to 3% of GDP, according to our base-case scenario. While upside risks for energy prices are limited in our view, the key threat emanates from downside risks of steel and iron ore prices, which have a history of high volatility. As for grain prices, the effect of

their volatility on Ukrainian prices in most cases is largely compensated by opposite changes in harvest volumes.

According to our calculations, every 5ppt underperfomance of steel and iron prices versus our forecast growth leads to the addition of 0.4% to the trade and current account deficit of GDP in 2021 and 0.5% of GDP in 2022.

Chart 23. Ukraine's trade deficit (US$bn) and commodity trade balance (US$bn) vs key commodity prices (2019=100)

During the years of energy prices outperforming prices for grains and metals, Ukraine saw expanding trade deficit



Source: NBU, Bloomberg, Refinitiv, ICU.

As a result of such contraction of export proceeds and trade deficit expansion, we will see a decline in domestic demand and additional pressure on the FX market. Moreover, fiscal performance may deteriorate sizably as well due to the high share of foreign-trade related revenues in the overall amount. So, while currently, we still observe mostly positive externalities from global commodities prices on the Ukrainian economy, risks are rising, and they are tilted to the downside in the short and medium term.

Risk #3: Vaccination challenge

Preconditions: slow vaccination pace

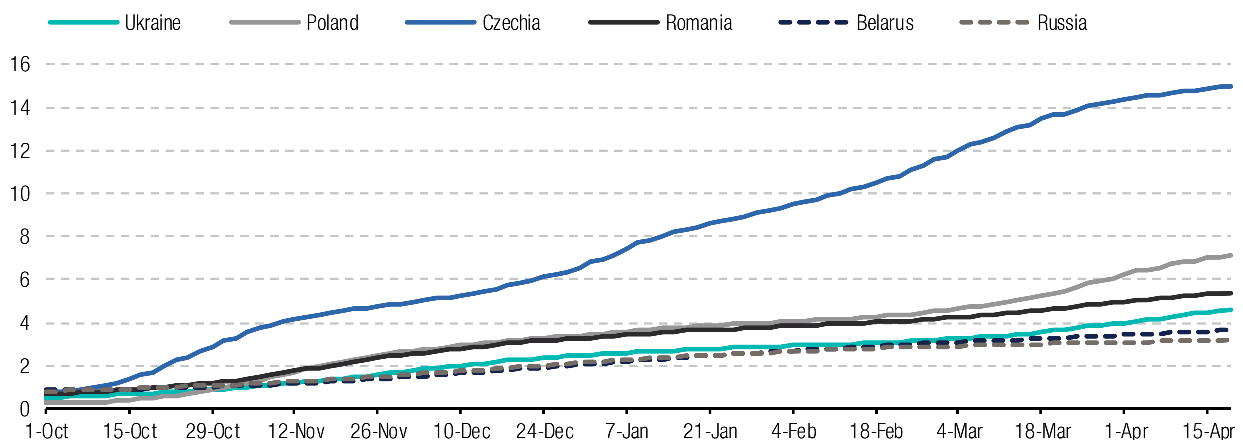
Authorities are committed to imposing strict restrictions in response to surging COVID-19 cases

COVID spread in Ukraine was very minimal at the early stage of the pandemic, as the strict measures that government implemented in March 2020 helped to limit the number of cases. When cases surged, authorities imposed weekend quarantine in November 2020 that caused resistance in some regions as local authorities opposed it. The country found itself in yet another lockdown in January shortly after the holiday season ended. Ukraine turned from national lockdowns to a number of regional-level lockdowns in March–April, as it closed down areas of the country depending on the extent the virus had spread and the capacity of local hospitals.

Despite the fatigue from the pandemic limitations that resulted in looser observance of the quarantine measures, the authorities proved they are committed to imposing strict restrictions such as a virtual shutdown of the public transport in Kyiv. We believe they will not hesitate to impose similar measures again should the pandemic accelerate in the future.

Chart 24. Number of registered infections per 100 inhabitants

While the number of cases in Ukraine is likely underreported, it is in line with the nearby countries and reflects a similar pattern



Source: ourworldindata.org, ICU

As of April 25, 2021, there were 4.8 registered cases of infection per 100 inhabitants in Ukraine. While this figure is likely underreported, it is not that far from some of the neighbouring countries such as Poland, Belarus, or Romania. However, Czechia holds one of the largest registered levels of infection: 15.1 per 100 people. Even with this percent of the population already having had COVID-19, countries are still far from having 75% or more immunity to the disease in order to expect the end of the pandemic.

Ukraine lags behind peers in vaccination race

Vaccination seems to be a viable solution; however, Ukraine lags behind its Western neighbours on this score. As of April 25, 2021, Ukraine has vaccinated just 1.2 persons per 100 with one dose. This is significantly behind Poland, Czechia, and Romania, which are all above the level of 20 per 100. Vaccinations in Ukraine began on February 24, while EU countries commenced their vaccinations two months earlier. Ukraine used the Oxford–AstraZeneca COVID-19 vaccine, which has a longer wait period between doses of 12 weeks. Ukraine won't be able to start giving the second dose until May.

Ukraine so far was unable to secure a large batch of vaccine and has received vaccines manufactured by Oxford–AstraZeneca, Sinovac Biotech, and Pfizer-BioNTech. Interchangeability of the vaccines is an important issue to consider as the second doze of a particular type might not be available at the time. This factor may further impede the vaccination process.

Ukraine needs 68mn doses to administer both shots to 70% of the population….

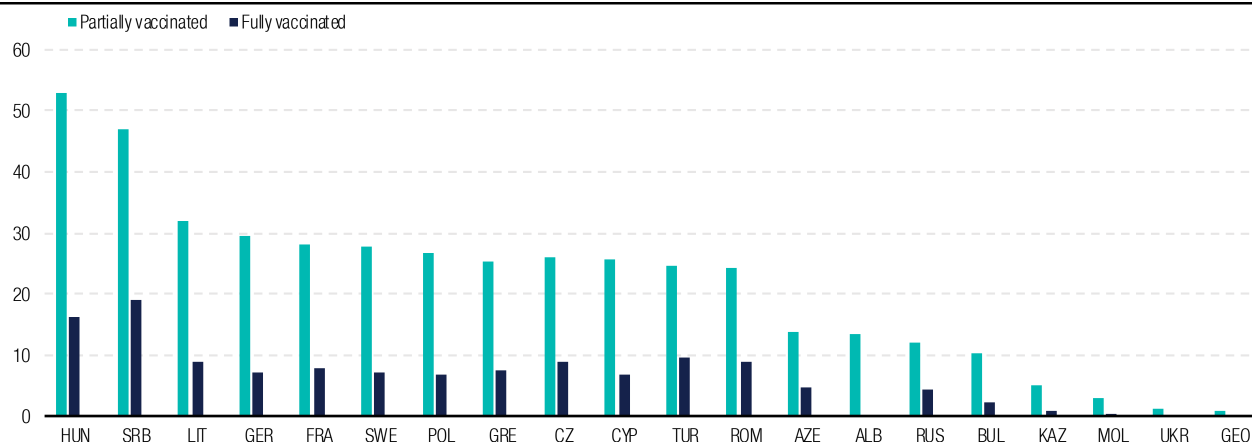
According to the Ministry of Health, Ukraine has to achieve a rate of 270 000 vaccine shots per day to reach a 70% vaccination level among the general population. So far, Ukraine has been administering as few as 12 000 doses daily with very low numbers on the weekend and above average figures on workdays. As of April 26, 2021, the country has received 1.2m doses of different vaccines with only one third of doses already administered. The Ministry of Health reported it has already contracted for 24mn doses with an additional 8mn expected under COVAX initiative. This makes a total of 32mn doses or almost a half of the 48mn doses required to achieve 70% fully vaccinated individuals in the country. However, unless the amount of doses administered daily increases dramatically, there would be no need for such large quantities of vaccine due to expiration concerns.

… which is unlikely given the pace of vaccination

We expect more modest daily vaccination figures, not exceeding the 100 000 figure, which would mean that vaccinations will continue into 2022, while a new spike in infections is likely to impose new limitations.

Chart 25. Share of the general population that has received vaccine as of April 25, %

Ukraine remains among the countries with the lowest vaccination ratios while Hungary and Serbia are doing surprisingly well



Source: ourworldindata.org, ICU

Outcome for economy: toll from new lockdowns

In our baseline scenario, Ukraine will not be able to reach herd immunity, but will avoid strict lockdowns

Our **baseline scenario** assumes that at most, 50% of the population will be vaccinated by the end of 4Q21. The country will still be far from achieving a meaningful level of collective immunity, which can result in new lockdowns in 2H21, and subsequent setbacks in economic recovery.

We expect new regional lockdowns to be introduced in 2H21, as the vaccination pace does not ensure the desirable level of people that are immune to COVID. While being unable to predict whether the virus will die out or reinforce itself through mutations as has happened with the British and a few other strains, one cannot rule out another wave of pandemic. As the number of daily infections falls, authorities relax measures. Without the proper vaccination, it is a matter of time before there is a new rise in cases.

We estimate that January's lockdown lowered monthly GDP by approximately 3–4%. The negative effects from regional lockdowns in March–April are about 2–3% of monthly GDP.

Optimistic scenario assumes the desired 70% vaccination by 4Q21. That is possible should Ukraine drastically improve the current pace of vaccination. This scenario can be implemented if the EU successfully vaccinates its own citizens and turns to helping its immediate neighbours—Ukraine, Moldova, and the Balkan states—with vaccines. Such countries as Poland and Czechia, which rely on Ukrainian labour force for their economic growth, are particularly interested in seeing the Ukrainian infection rate decline. Should this scenario materialize, it would allow avoiding tightening restrictions in 4Q21-1Q22, and provide an additional boost for GDP by 1.5% in these quarters. Speedy vaccination will allow GDP growth to reach 5.6% in 2021, and 4.1% in 2022, vs 5.2% and 3.8% in the baseline.

Without acceleration of vaccination, economy will suffer from more lockdowns

Adverse scenario implies Ukraine is unable to dramatically speed up vaccination due to lack of capacity, high refusal rates, or simply due to the shortage of effective vaccines. In such case, the country will see not more than a 30% vaccination rate by the end of 4Q21. That would result in tightening restrictions in 4Q21–1Q22 and an additional drag on GDP by 2–2.5% in these quarters. We project 2021 GDP to grow only by 4.7% and slow to 3.5% in 2022 vs 5.2% and 3.8% in the baseline.

Risk #4: Life is expensive without IMF

Preconditions: further delays with IMF tranches

The active negotiations with the IMF continue

After signing the SBA programme with the IMF in June 2020, Ukrainian authorities have not been successful with the first review. Although the conditionality of the programme was rather light, the programme also assumed the preservation of previous achievements. Unfortunately, many areas backtracked and currently, authorities are trying to resolve challenging issues including judiciary reform, anticorruption framework, mismatches in the energy sector, fiscal prudence, and NBU independence.

We should say that authorities continue to communicate strong adherence to collaborating with the IMF and to the programme. And we see efforts to resolve challenging issues, like recent amendments to the asset-declaration legislation.

In September, large repayments are scheduled, including redemption of US$1bn of Eurobonds issued in 2015 during the debt restructuring, and US$1bn of US-backed Eurobonds, issued in 2016 with five-year maturity. In total, this September, the government should pay about US$3bn

The risk of failure in receiving the credit tranches from the IMF looks high

Accounting for the government's elevated financial needs and raised tensions with Russia, we still believe that authorities will be able to secure IMF and related financing before September. In our baseline scenario, we assume that the current SBA will be prolonged for the next year or a new programme will be signed.

However, with weak progress with the outstanding issues there is a high chance that Ukraine may receive the IMF tranches neither this nor next year.

Outcomes for Ukraine: smaller and more expensive borrowings

Market borrowings instead of official financing will be considerably more expensive

The obvious consequence of failure to receive the IMF tranches and related funds from other IFIs and official creditors will be the need to replace them with market borrowings. This year, the situation is mitigated by the fact that Ukraine should receive c.US$2.7bn from the IMF's SDR allocation, which may be directed to MoF coffers. Nevertheless, it will not prevent the MoF from the need to tap international capital markets. Even assuming implicit sequester of the budget and lowering the deficit to 3.0% of GDP as well as completely rolling domestic FX bonds, the MoF needs to issue c.US$1.5bn of Eurobonds. In 2022, securing the funds for covering the government's financing needs looks even more challenging, as the required borrowings on international markets grow to US$2.0bn.

Replacing cheap concessional borrowings with market-sourced funding definitely will make future servicing of debt more costly. Moreover, not implementing the IMF programme increases the cost of market borrowings sizably. According to empirical studies, a well-functioning IMF programme leads to significant improvements in the perceived creditworthiness of the programme country and to a change of about three notches of credit rating by leading rating agencies (Gehring and Lang, 2016). Correspondingly, higher amounts of financial resources made available by the IMF and the good implementation of the IMF programme are associated with shrinking sovereign credit spreads and attenuating a country's fiscal burden. In addition, the IMF-supported programmes significantly reduce the likelihood of subsequent sovereign defaults by around 1.3 percentage points (Tartari and

Tola, 2019). Moreover, IMF lending acts as a "seal of approval" for national economic policies, catalysing private investment (Erce and Riera-Crichton, 2015).

Table 3. FX-denominated debt repayments and sources for financing for 2021 and 2022, US$bn

	2021	2022		2021	2022
Government FX accounts balance (beginning of the year)	2.1	0.7			
Government FX funding	**8.8 (10.2)**	**8.2 (8.6)**	**Government FX debt payments**	**10.2**	**8.4 (8.3)**
IMF	0.0 (1.4)	0.0 (1.4)	IMF	0.5	0.5
Eurobonds	2.0 (1.5)	3.0 (1.5)	Other IFIs	0.6	0.7
WB aid	0.0 (0.5)	0.0 (0.5)	Eurobonds	1.6	1.2
EU aid	0.7 (0.7)	0.0 (0.0)	US-backed Eurobonds	1.0	0.0
Domestic FX bonds	4.6 (4.6)	4.0 (4.0)	Other external debt repayments	0.1	0.1
SDR allocation	1.5 (1.5)	1.2 (1.2)	External interest payments	1.8	1.9 (1.8)
			Domestic FX bonds	4.6	4.0
Expected Government FX accounts YE	**0.7 (2.1)**	**0.5 (2.4)**			

Numbers in brackets represent baseline scenario
Source: MFU, ICU.

We consider that Ukraine is already paying the price for the weak implementation of the IMF programme, as the spread for Ukrainian Eurobonds is above 500bps. Based on the results of studies mentioned above and others, we suggest that without IMF tranches, Ukraine will have to pay additional premium to investors. We assume that the new interest rate for 10-year bonds can be set higher by c.100bps to the yield curve in the baseline scenario, which will have a negative impact on debt service during the following years.

External debt servicing will grow by US$30-50m in 2021, and by US$100-150m in 2022 in case of failure with the IMF and other official funding

However, in 2021, this increase in the cost of borrowing will have low impact, as interest payments will mostly be scheduled for the next year or later. Namely, Ukraine will pay just an additional US$30–50m for external borrowings this year. But next year, these extra expenses will rise to about US$100–150m at least, elevating needs for hard currency.

Actually, some of these needs can be covered with local borrowings in hard currency, but to increase the amount of proceeds, the MoF will have to offer higher interest rates by at least 50bps, expanding debt-service costs even more and worsening the maturity structure by increasing the share of short-term obligations.

Therefore, we should pay attention to local-currency borrowings, too. To finance the budget deficit without cheaper, external financing, the Ukrainian government will have to borrow in local currency from domestic banks and other institutions, as it did at the end of 2020. Such large borrowings will require a further increase in interest rates.

For extra local borrowings, the MoF can be forced to increase rates for UAH-denominated debt by at least 100bps in 4Q21, increasing next year's debt service cost by about UAH2bn (US$65m), which, with above mentioned expenses, will create a need for c.US$0.2bn for debt service.

Tighter fiscal policy, weaker economic growth, and lower social standards are the economic consequences of the lack of a IMF programme

Raising the debt-servicing burden will require from the government an additional increase in the primary surplus, ensuring strong negative fiscal impulse. That will put a drag on economic recovery and may lead to social tensions, as the fiscal space for the current spending will be seriously limited. Meanwhile, we still believe that even in this scenario, the government will be able to avoid significant macro financial turbulence, paying for the lack of a well-implemented IMF programme by lowering the country's long-term economic potential.

Yearly forecast 2021–22

	Historical data for 2011–20										Forecast by ICU	
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021F	2022F
Activity												
Real GDP (%, YoY)	5.5	0.2	(0.0)	(6.6)	(9.8)	2.4	2.5	3.4	3.2	(4.0)	5.2	3.8
Nominal GDP (UAHbn)	1,300	1,405	1,465	1,587	1,989	2,385	2,984	3,561	3,978	4,194	4,818	5,401
Nominal GDP (US$bn)	163	174	180	133	90	93	112	131	155	155	175	193
Unemployment (%)	8.0	7.6	7.3	9.3	9.1	9.3	9.5	8.8	8.2	9.5	9.0	8.5
Inflation												
Headline inflation (%, YoY, e.o.p)	4.6	(0.2)	0.5	24.9	43.3	12.4	13.7	9.8	4.1	5.0	7.8	5.0
Headline inflation (%, YoY, avg.)	8.0	0.6	(0.3)	12.1	48.7	13.9	14.4	10.9	7.9	2.7	8.1	5.4
GDP deflator (%, YoY)	14.2	7.8	4.3	15.9	38.9	17.1	22.1	15.4	8.3	9.8	9.2	7.9
Exchange rates												
UAH/USD (e.o.p.)	8.0	8.1	8.2	15.8	24.0	27.3	28.1	27.7	23.8	28.3	28.0	28.1
UAH/USD (avg.)	8.0	8.1	8.2	12.0	21.9	25.6	26.6	27.2	25.8	27.0	27.8	27.9
External balance												
Current account balance (US$bn)	(10.2)	(14.3)	(16.5)	(4.6)	5.0	(1.9)	(3.5)	(6.4)	(4.1)	6.2	1.8	(4.5)
Current account balance (% of GDP)	(6.3)	(8.3)	(9.2)	(3.5)	5.6	(2.0)	(3.1)	(4.9)	(2.7)	4.0	1.0	(2.3)
Trade balance (US$bn)	(10.1)	(14.3)	(15.6)	(4.6)	(2.4)	(6.5)	(8.7)	(11.4)	(12.5)	(1.8)	(6.0)	(11.4)
Trade balance (% of GDP)	(6.2)	(8.3)	(8.7)	(3.5)	(2.6)	(6.9)	(7.8)	(8.7)	(8.1)	(1.2)	(3.4)	(5.9)
Exports (US$bn)	83.7	86.5	81.7	65.4	47.9	46.0	53.9	59.2	63.6	60.7	70.6	68.9
Imports (US$bn)	93.8	100.9	97.4	70.0	50.2	52.5	62.7	70.6	76.1	62.5	76.6	80.3
Capital flows (F/A) (US$bn)	7.7	10.1	18.6	(9.1)	(4.6)	3.1	6.0	9.3	10.1	(4.2)	(0.5)	7.2
FDI (US$bn)	7.0	7.2	4.1	0.3	(0.4)	3.8	3.7	4.5	5.2	(1.0)	2.0	3.5
FDI (% of GDP)	4.3	4.1	2.3	0.2	(0.5)	4.1	3.3	3.4	3.4	(0.6)	1.1	1.8
Reserves (US$bn)	31.8	24.5	20.4	7.5	13.3	15.5	18.8	20.8	25.3	29.1	32.5	34.2
Reserves % of ARA metric	66.5	47.6	52.4	23.5	46.5	56.5	65.5	71.8	86.7	101.1	112.6	118.3
Interest rates												
NBU's key policy rate (%, e.o.p.)	7.75	7.50	6.50	14.00	22.00	14.00	14.50	18.00	13.50	6.00	7.50	7.00
Fiscal balance												
Budget balance (% of GDP)	(1.8)	(3.8)	(4.4)	(5.0)	(2.3)	(2.9)	(1.5)	(2.4)	(2.1)	(5.1)	(4.5)	(3.0)
Public debt (% of GDP)	36.4	36.7	39.9	69.4	79.0	80.9	71.8	60.9	50.6	60.8	58.5	55.2
Wages												
Average nominal wage (UAH)	2,639	3,032	3,274	3,475	4,207	5,187	7,105	8,867	10,504	11,597	13,999	15,905
Real wage (%, YoY)	8.8	14.3	8.2	(5.2)	(18.5)	7.8	19.7	12.6	9.9	7.4	11.7	7.9

Source: Ukrstat, NBU, MoF, ICU.

Quarterly forecast 2021–22

	Historical data									Forecast by ICU						
	1Q19	**2Q19**	**3Q19**	**4Q19**	**1Q20**	**2Q20**	**3Q20**	**4Q20**	**1Q21**	**2Q21**	**3Q21**	**4Q21**	**1Q22**	**2Q22**	**3Q22**	**4Q22**
Gross domestic product																
Real GDP (%, YoY)	3.1	4.8	3.8	1.4	(1.2)	(11.2)	(3.5)	(0.5)	(0.5)	10.7	4.9	5.4	6.3	5.0	2.7	2.2
Nominal GDP (UAHbn)	820	933	1,112	1,113	854	875	1,163	1,302	952	1 066	1 318	1 482	1 094	1 209	1 463	1 635
Nominal GDP (US$bn)	30	35	44	46	34	33	42	46	34	39	49	54	39	43	53	58
Prices																
Headline inflation (%, YoY, e.o.p)	8.6	9.0	7.5	4.1	2.3	2.4	2.3	5.0	8.5	8.1	8.9	7.8	5.5	5.1	4.9	5.0
Headline inflation (%, YoY, avg.)	8.9	9.1	8.5	5.2	2.6	2.1	2.4	3.8	7.4	8.4	8.4	8.4	6.3	5.3	4.9	5.0
GDP deflator (%, YoY)	12.2	9.9	7.6	4.7	5.1	5.7	8.4	17.5	12.0	10.0	8.0	8.0	8.0	8.0	8.0	8.0
Exchange rates																
UAH/USD (avg.)	27.31	26.52	25.21	24.22	25.10	26.87	27.57	28.26	27.95	27.67	27.75	28.00	28.05	27.82	27.74	28.15
UAH/USD (e.o.p.)	27.31	26.16	24.36	23.81	27.59	26.69	28.30	28.32	27.85	27.50	28.00	28.00	28.20	27.53	28.07	28.11
Interest rates																
NBU's key policy rate (%, e.o.p.)	18.00	17.50	16.50	13.50	10.00	6.00	6.00	6.00	6.50	7.50	7.50	7.50	7.50	7.00	7.00	7.00

Source: Ukrstat, NBU, ICU.

Disclosures

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

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

Sell: Forecast 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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