



# Forum Ukraine

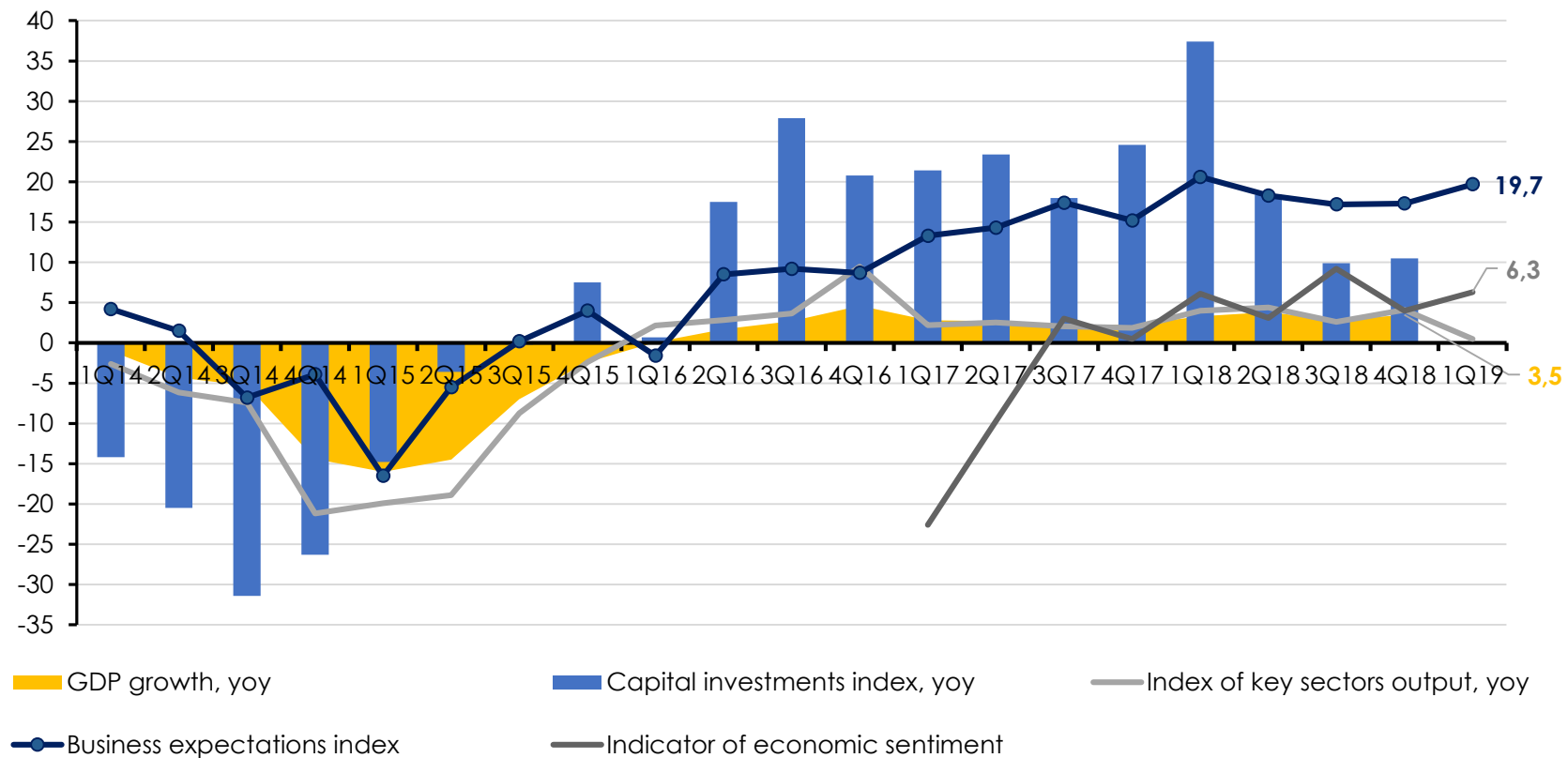
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## The economy of Ukraine has stabilized and gained positive momentum, despite internal political risks and lingering conflict with Russia

- **Ukraine is in its third year of economic recovery.** Real GDP growth in 4Q18 amounted to 3.4% yoy, annual growth in 2018 was 3.3%, breaking 7Y record.
- Only the light and food industries' growth was negative in 2018 (-4.6% and -1.9%yoy, respectively). But in 1Q2019 industrial production decreased by -0.9%yoy
- **Household consumption is booming** benefiting from strong growth of nominal (+22.4% yoy in March) and real wages (+12.5%yoy), significant remittances from labor migrants (+\$2.95 bn or +8.5% yoy in 1Q2019), falling ILO (International Labor Organization) unemployment (8,8% in 2018), expansion of consumer lending (+20.7% yoy in 1Q2019)
- **CPI inflation is in a single digits and on a declining path** (8.8% yoy in April), but still above NBU's target
- Central bank launched a cycle of monetary policy easing (-0.5pp to 17.5%)

# Ukraine - Macroeconomic Situation

Economic development indicators, %



# Ukraine - Macroeconomic Situation

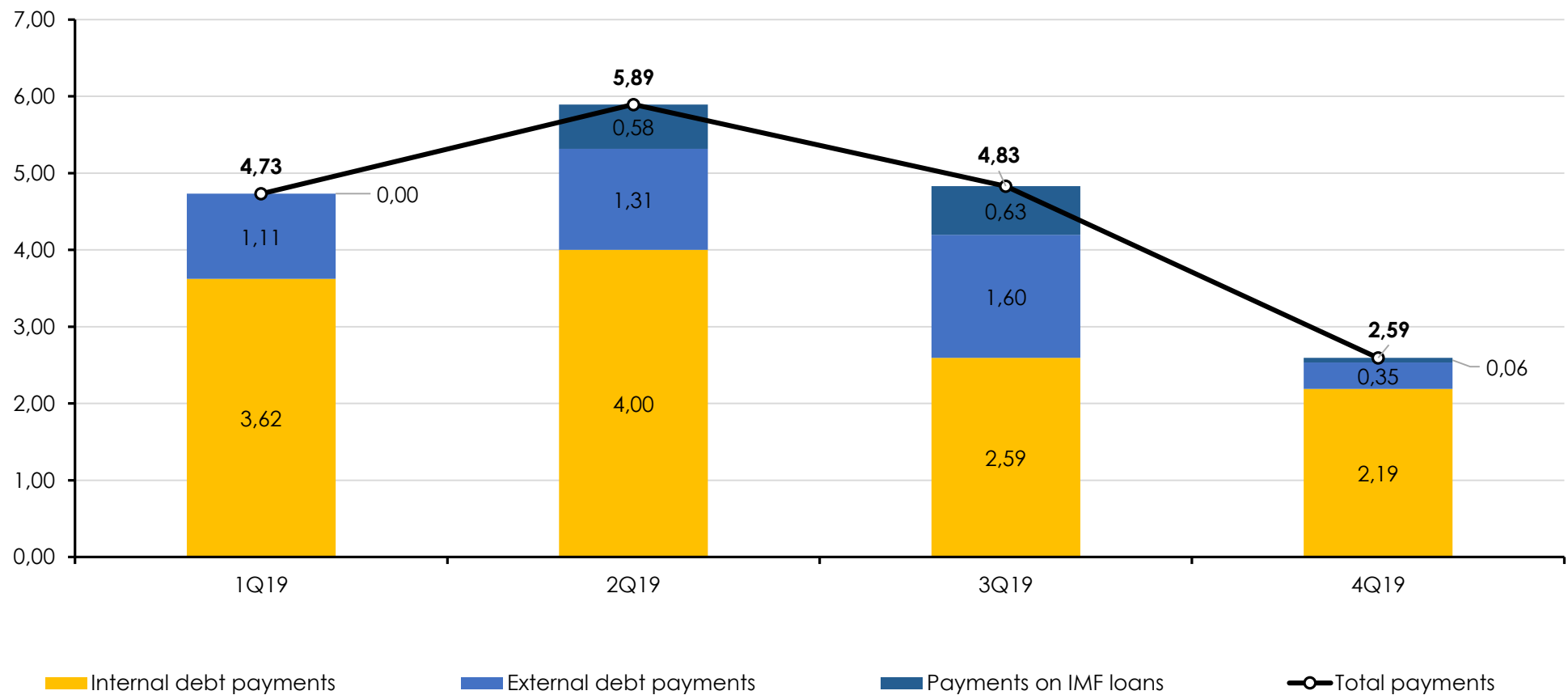
## USD/UAH FX rate dynamics



## There are no substantial fundamental factors for significant weakening of UAH

- **Fiscal discipline at an acceptable level.** Currently planned budget deficit for 2019 (2.3%) is quite conservative
- **In 2018, balance of payments surplus reached \$2.9bn** (+12.1%yoy) breaking 8Y record, but trade deficit has widened to \$11.5 bn (+32.9%yoy or +\$2.8 bn). In 1Q2019, balance of payments was executed with surplus around \$0,33 bn amid trade deficit -\$1bn
- **The inflow on the financial account reached \$7.5 bn** in 2018, which is the best result since 2013. In 1Q2019, financial account was executed with surplus around \$0,77 bn (despite peak public debt payments) benefiting from **strong demand of non-residents for UAH govies** (+\$1,2 bn, +517% YTD)
- **UAH FX rate is relatively stable** (appreciated by 1.4% in 2018, by 5% YTD) in contrast to weakening developing countries' currencies
- **The accumulated buffer in the form of international reserves** (USD 20,5bn or 3,4 months of imports), the NBU's tight and independent monetary policy, substantial inflows of remittances from economic migrants and portfolio investments of non-residents will help to smooth out possible excessive volatility in FX market

## Debt repayments (LCY+FCY), USD bn\*



## “Base–case” scenario:

- after slight slowdown in 2019 due to tight monetary stance, as well as rising internal and external volatility, GDP growth is expected to turn back to long–term uptrend above 3%;
- political uncertainties weigh on economic sentiment, however they remain positively elevated;
- tight and independent monetary policy of the NBU likely to keep prices under control and bring CPI close to 6%+–2 p.p. on mid–term horizon;
- fiscal discipline is expected to remain at an acceptable level due to the lack of financial resources for populist spending boost;
- there are no substantial fundamental factors for significant weakening of UAH FX rate.

## Key risks:

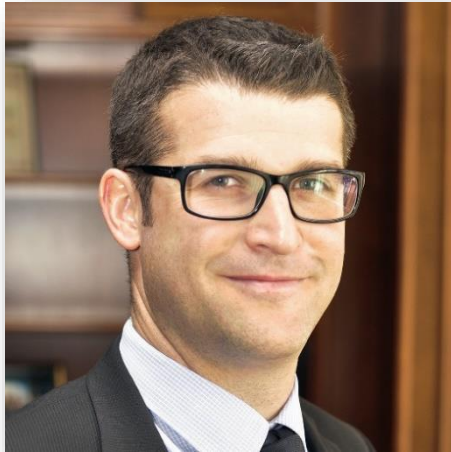
- potential disruption of new SBA (stand-by agreement) with IMF and other financial donors may worsen access to capital market and amid peak debt payments would create devaluation pressure during upcoming years, which in turn will injure macroeconomic stability;
- 2019's parliamentary elections may negatively influence the pace of economic recovery, business sentiments and inflation expectations (but unlikely to change current socio-economic trajectory dramatically);
- high fundamental inflationary pressure from non-monetary factors is still in place;
- external risks (global economy slowdown, unfavorable conditions for Ukrainian exports, trading wars);
- geopolitical risks (conflict with Russia has potential for destabilization, incl. an escalation in the Sea of Azov)



**Our current forecast is cautiously optimistic, but depends on political stability and cooperation with IMF, EU and IFIs**

## Ukraine: Key economic indicators and “base-case” forecasts

	2016	2017	2018e	2019f	2020f	2021f
<b>Real Sector</b>						
Nominal GDP (UAHbn)	2385	2983	3558	4111	4704	5340
Real GDP (%yoy)	2,4	2,5	3,3	2,7	3,1	3,2
CPI (avg, %yoy)	13,9	14,4	10,9	8,3	7,7	6,9
CPI (eop, %yoy)	12,4	13,7	9,8	8,3	7,0	6,5
PPI (avg, %yoy)	20,5	26,4	17,4	14,5	12,6	10,5
Industrial output (%yoy)	2,8	0,4	1,6	1,8	2,0	2,3
Unemployment rate (avg, %)	9,3	9,5	8,6	8,7	8,5	8,3
Average gross wages (%yoy)	23,5	37,1	24,8	18,0	15,0	13,0
<b>External Sector</b>						
C/A balance (% of GDP)	-1,4	-2,2	-3,6	-3,8	-3,7	-3,2
Total external debt (% of GDP)	120,6	102,9	89,4	79,3	72,8	69,0
Official FX reserves (USDbn)	15,5	18,8	20,8	19,5	18,0	18,0
<b>Monetary Sector</b>						
USD/UAH(eop)	27,2	28,07	27,7	28,5	29,5	31,0
USD/UAH(avg)	25,6	26,6	27,2	28,0	28,5	30,3
<b>Fiscal Sector</b>						
General budget balance (% of GDP)	-2,9	-1,6	-1,7	-2,1	-2,0	-2,0
Public debt (% of GDP)	76,0	68,0	59,9	59,5	56,5	55,0



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THANK YOU!