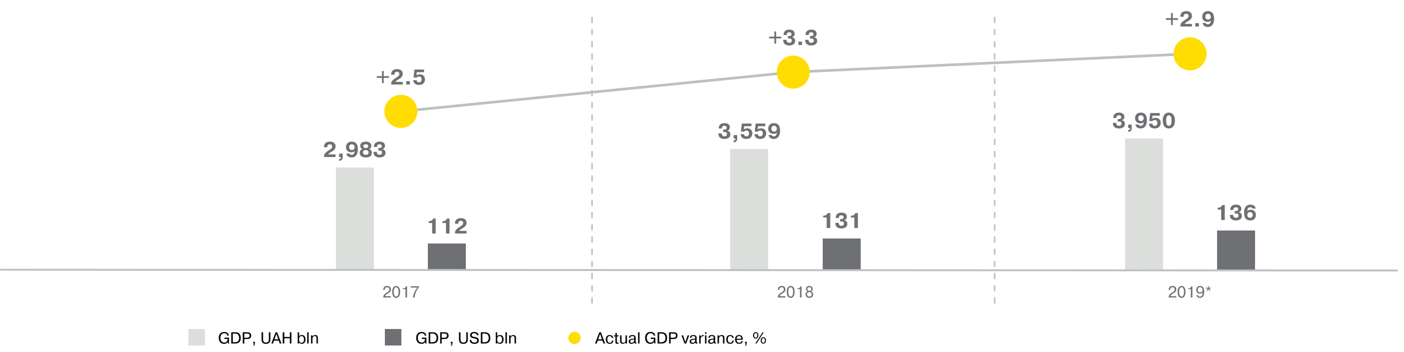
Ukraine's macroeconomic indicators in 2018

GDP trends

2018 values are based on USD/UAH exchange rate of 27.2, 2019 values are based on USD/UAH exchange rate of 28.2.

* Forecast of the Ministry of Economic Development and Trade of Ukraine.



The Ministry of Economic Development and Trade of Ukraine named three main factors of GDP growth in 2018: high level of investment demand, increase in household income and high grain yields.

According to the forecast of the Ministry of Economic Development and Trade, Ukraine's GDP is set to grow 2.9% in 2019 with increased spending in the domestic market acting as the main driver of economic growth. Meanwhile, the National Bank of Ukraine (NBU) predicts a slightly lower growth rate of 2.5% but it agrees that increased consumption will be the driving factor, thanks to an increase in real income across the country. The main factors affecting the domestic market will be: tight monetary policies aimed at keeping inflation in line with target rates and moderate fiscal policies prompted by the repayment of significant government debt. Important factors outside Ukraine include a slowdown in global economic growth and reduction in foreign trade volumes, driven in part by a smaller grain yield.

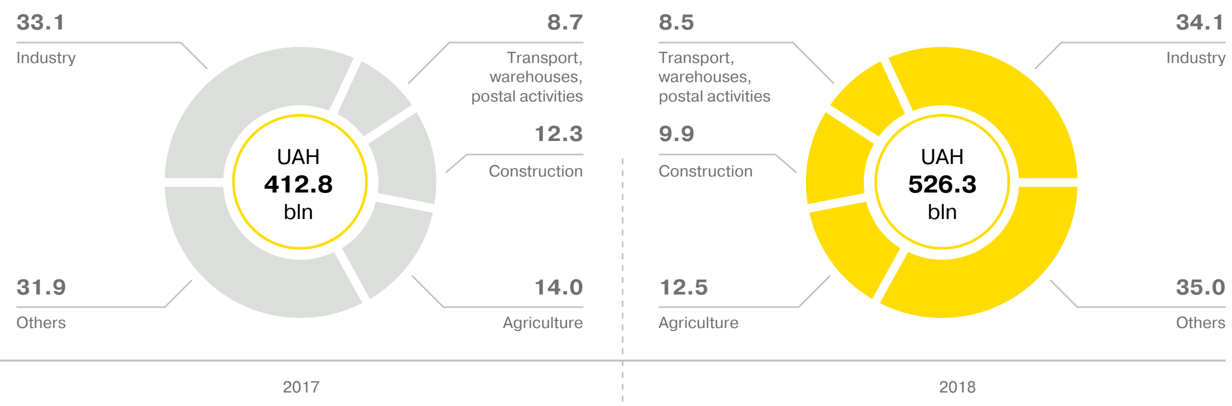
The companies and organizations allocated UAH 526.3 bln for capital investments in 2018, which is 16.4% more than in 2017. At the same time, the structure of sources of financing has not changed significantly: own funds han in 2017. However, the structure of financing sources did not change significantly: funds owned by enterprises and organizations remain the main financing source accounting for 71.3%, while budgets accounted for 12.7%, bank loans 6.7%, contributions from the population towards housing construction 6.4%, and foreign investments 0.3%. Thus, in 2018, the share of own funds of the enterprises and bank lending increased by a total of 2.8 pp, while reducing the share of the foreign investments and contributions of the population in housing construction by a total of 2.5 pp.

In the industrial sector, capital investments were allocated as follows: processing industries accounted for 49.4%, mining sector for 29.4%, and energy sector for 19.5%. Investments were allocated to the acquisition of tangible assets, mainly for the procurement of equipment.

The net inflow of foreign direct investments was USD 2.9 bln, compared to USD 2.2 bln last year. USD 1.1 bln was directed to the real sector: industry, trade, transport, and IT.

Structure of capital investments, %

Data: State Statistics Service of Ukraine.



Producer price index and consumer price index, %

Data: State Statistics Service of Ukraine.

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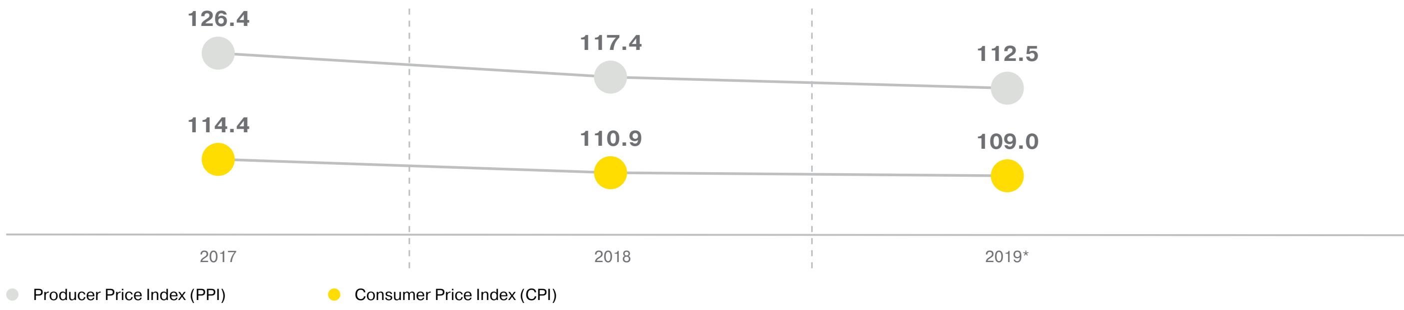

Based on the results of 2018, headline inflation fell to 10.9% due to the tight monetary policy of the National Bank of Ukraine, improving household expectations against a stable foreign exchange market.

The National Bank set the target inflation rate for 2019 at 7.3–7.8%. Further increases in wages and regulated tariffs may promote higher rates of headline inflation.

The average nominal wage of full-time employees in December 2018 was UAH 10,573, which is 20.5% higher compared to the same period in 2017. According to the State Statistics Service of Ukraine, total household income reached UAH 3,219.5 bln in 2018. Growth in average household income — largely due to wage revision and changes in public utilities rates — reduced the number of households who applied for reimbursements for utilities and housing maintenance services. According to the State Statistics Service of Ukraine, 3.9 mln households received subsidies in December 2018. Also in 2018, there was a decrease in the average amount of subsidies per household — UAH 713 per month.

Output from industrial products grew by 1.1% in 2018. Slow growth rates were down to unfavorable economic situations in foreign markets, the continuation of repair work at metallurgical enterprises and transport and logistics problems, including a tense situation relating to transportation on the Sea of Azov. A decrease in production volumes by the processing industry was compensated by growth in output from the mining industry and an increase in the volumes supplied by the electricity and gas sectors.

Industrial production index, %

Data: State Statistics Service of Ukraine.

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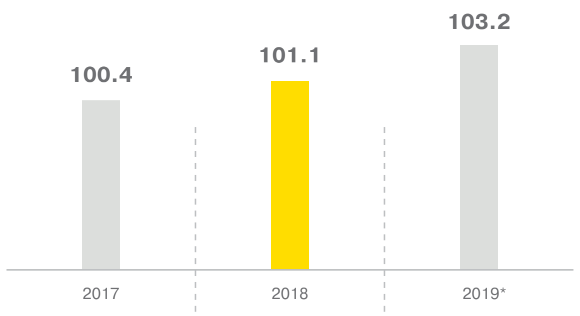
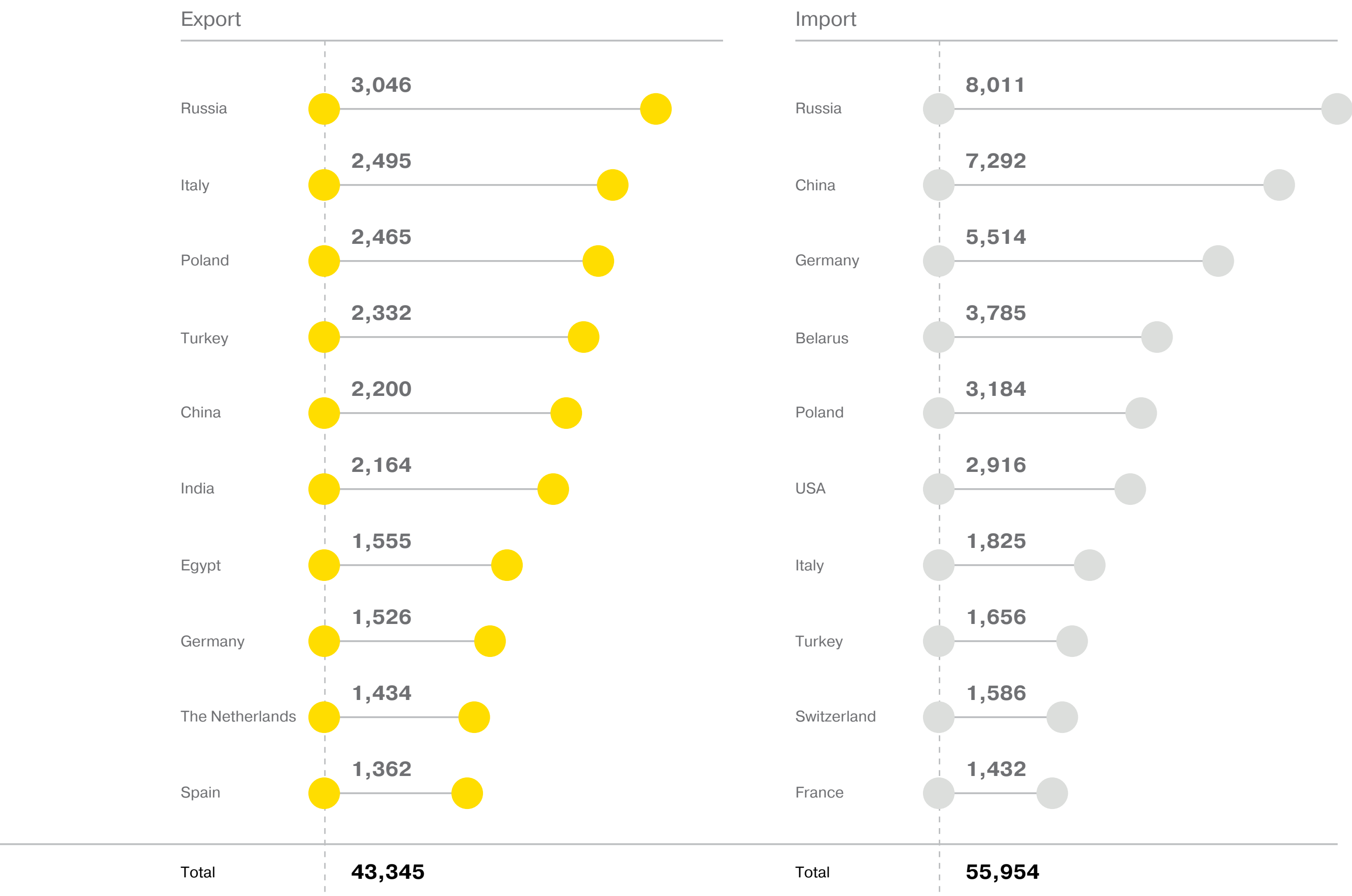


Industry, construction, retail trade and agriculture are the core sectors driving national GDP. Based on the 2018 results, the scope of completed construction work grew by 8.5% and retail sales increased by 3.3%, agriculture product index increased by 5.7%.

Cross-border trade in commodities in 2018, USD mln

Data: National Bank of Ukraine.



Exports of goods and services in 2018 amounted to USD 43,345 mln, and imports to USD 55,954 mln. Exports increased by 9.2% compared to 2017, while imports increased by 13.4%. The negative balance in foreign trade was USD 12,609 mln.

The geographical make up of imported goods did not change significantly in 2018. The greatest growth was seen in imports from Asian countries which reached USD 12,636 mln, an increase of 27.6% compared to 2017. Imports from EU countries amounted to USD 20,569 mln, 12.1% higher than in 2017. Imports of goods from the Russian Federation increased by 11.1% to USD 8,011 mln.

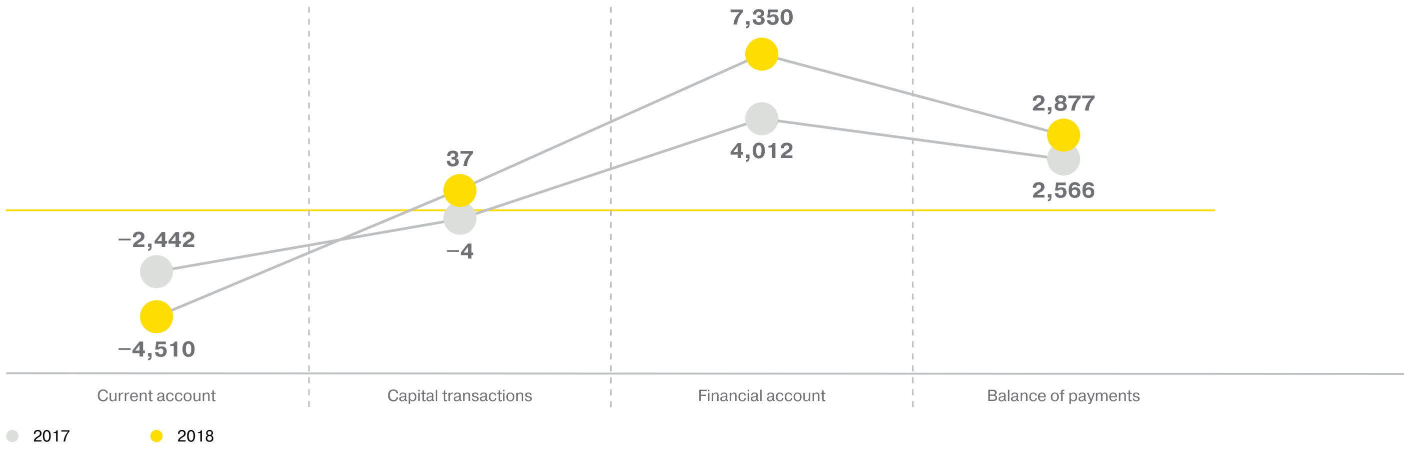
The most prominent imports were products for the engineering industry (28.6%), mineral products (24.2%), and products for chemical and related industries (18.6%). Driven by stable domestic demand, imports of engineering products, food and industrial goods increased significantly by 17.8%, 17.6% and 21.0%, respectively.

In 2018, the main Ukrainian exporting segments were food products with 42.9%, the iron and steel industry with 26.3%, mineral products with 9.0%, and engineering products with 6.9%. Sales of grains had a significant impact on the growth of Ukrainian exports thanks to a high yield of 2018, while exports in ferrous and non-ferrous metals were boosted by favorable market conditions.

According to the NBU forecast, in 2019, growth in exports of goods will slow to 2% because of lower prices in the commodity markets and the imposition of additional restrictions on imports of engineering products to the Russian Federation. Imported goods are expected to be around 3–4% higher, due to lowering of the global prices for energy resources.

Balance of payments, USD mln

Data: National Bank of Ukraine.



In 2018, the current account deficit in the balance of payments increased to USD 4.5 bln (USD 2.4 bln in 2017). Imported goods and services outweighed exports by 3 pp.
According to the NBU forecast, in 2019, the current account deficit will decrease to 3.1% of GDP (versus 3.6% of GDP in 2018).

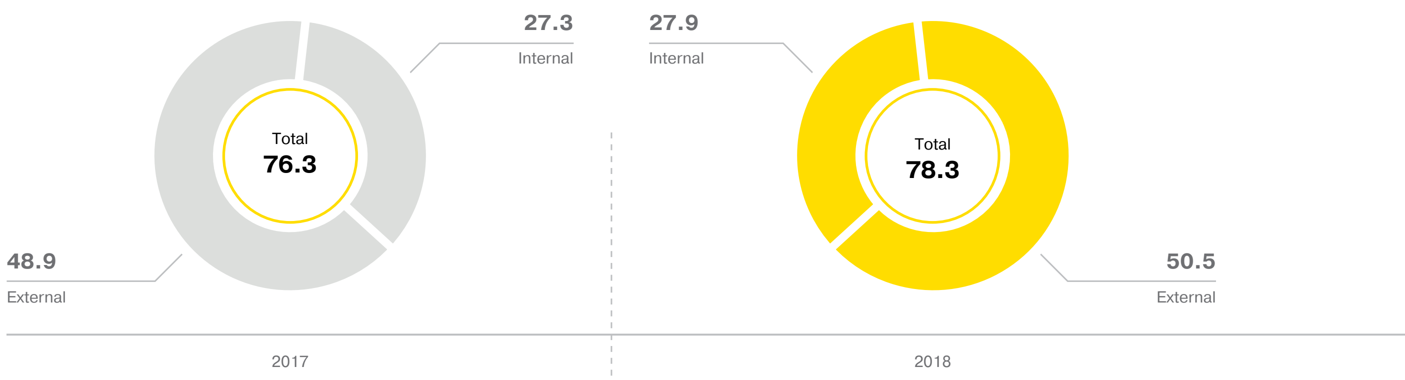
The financial account surplus in 2018 was observed both in the private sector and in the public sector. Role of external financing in the public sector increased by the end of the year due to the placement of Eurobonds in the amount of USD 2 bln and obtaining financin from IMF and EU against guarantees of World Bank by a total of USD 2.4 bln. As a result of these loans, the international reserves of the National Bank of Ukraine increased by 10.7% and as of January 1, 2019 amounted to USD 20.8 bln. This volume covers 3.4 months of the future imports and is enough to fulfil the Ukraine's obligations and current transactions.

The NBU forecasts that at the end of 2019 the volume of the gold and foreign currency reserves will remain at current levels. It is expected that the deficit in the net liquidity balance will be financed by the receipt of funds from IMF.

The NBU discount rate in 2018 was revised from 16.0% in January to 18.0% in September and remains at this level. Due to a decline in inflation in 2018, the effective rate increased to 9–10% by the fourth quarter of 2018. A more hardline monetary policy is aimed at preventing further deterioration of household and business inflation expectations. This is a response to uncertainty about the resumption of cooperation with IMF and high external risks.

Government and government-guaranteed debt, USD bln

Data: Ministry of Finance of Ukraine.



The government and government-guaranteed debt of Ukraine in 2018 increased in dollar terms by 2.6%, or USD 2.0 bln. The joint debt/GDP ratio in 2018 decreased to 60.9%, which is close to the optimum value of 60%.