



No. 1 (112), April 2020

Macroeconomic Forecast Ukraine

Coronacrisis

EXECUTIVE SUMMARY

This forecast was done in a highly volatile environment and under assumptions that may not turn out to be true. We assume most of the economic activity restrictions to be lifted by the end of the second quarter. We expect substantial damage to the economy from domestic restrictions and lower external demand. A gradual recovery is expected in the second half of 2020, but economic activity will remain lower than the pre-crisis level. We project real GDP to fall by 5.9% in 2020. Consumer inflation is forecasted to accelerate only to 7.5% yoy in December as weak demand will limit the impact of higher inflation expectations and weaker hryvnia. We used UAH 28.7 per USD as an average 2020 exchange rate in forecast calculations.

Key forecast figures

	2014	2015	2016	2017	2018	2019P	2020F
Real GDP, % yoy	-6.6	-9.8	2.4	2.5	3.4	3.2	-5.9
Consolidated fiscal balance, % of GDP	-4.5	-1.6	-2.3	-1.4	-1.1	-1.5	-5.4
Current account balance, % of GDP	-3.4	1.8	-1.4	-2.2	-3.4	-0.7	-4.0
CPI, % yoy eop	24.9	43.3	12.4	13.7	9.8	4.1	7.5

Note: P - preliminary, F - forecast, yoy - year-on-year change, eop - end of the period,

Source: Ukrstat, NBU, State Treasury, IER calculations and forecasts

Forecast calculations were completed on March 31, 2020.

Authors: Vitaliy Kravchuk, Veronika Movchan

MACROECONOMIC FORECAST UKRAINE

This forecast was done during great uncertainty and thus may become irrelevant in a matter of weeks if not days. Still, we believe it a useful exercise that may help guide economic policy and business decisions.

We assume that most quarantine-related restrictions on the economic activity in Ukraine will be phased out by the end of the second quarter of 2020. We also expect that damage to the global economy due to the pandemics will be significant but not catastrophic, as global stimulus measures will contain some of the economic damage. Some restrictions on international travel will likely persist until pandemics is fully contained.

Quarantine restrictions are expected to lead to a sharp drop in economic activity as a significant part of consumer-facing businesses were closed as “non-essential” including non-food retailers, consumer services, passenger transportation (with some exceptions), culture and art establishments. Hotels and restaurants lost a large part of their business or completely closed.

Employees, that were laid off or furloughed, lost some or all of their income (depending on their eligibility for social welfare payments and payments by their employers). This undercut consumer demand. We expect the recovery of consumer demand to be gradual as some jobs lost during the coronacrisis may stay lost, and consumer confidence may remain shaky. We project real household consumption to drop by 6.6% in 2020.

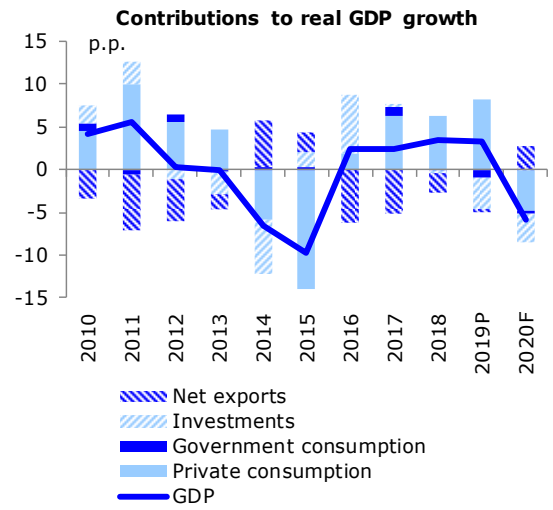
A large part of ongoing public and private investment projects may be suspended or delayed during the quarantine. Investment sentiment may remain subdued after quarantine is lifted due to ongoing uncertainty about external and domestic demand as well as lower access to financing. Thus, we forecast real fixed investment to drop by over 16% in 2020

We assume that the impact of global quarantine restrictions on logistics of international trade will be moderate and that there will be no large-scale disruptions preventing cross-border deliveries. We expect exports to drop primarily in response to lower external demand. Demand for agricultural exports is not likely to drop significantly, but supply may be limited by smaller 2020 harvest due to unfavourable weather conditions. Steel exports are expected to continue but decrease significantly in response to lower demand and less favourable prices. Overall, we project exports of goods and services to drop by over 10% in real terms in 2020.

The decline in imports is expected to be larger than that of exports. Quarantine restrictions and lower incomes will cause a significant drop in demand for imported consumer goods. Disruption of investment plans is projected to have a similar or even larger impact on imports of investment goods. Real imports are forecasted to drop by 14.5% in 2020.

Overall real GDP is projected to fall by 5.9% in 2020. We used an average exchange rate of UAH 28.7 per USD in our forecast under the assumption of effective IMF program (with tranches allocated for budget purposes) and support provided to Ukraine by other international partners (including the World Bank, the EU).

The sharp decline in energy prices, lower demand for imports and extensive stimulus measures in the United States increasing supply of dollars are expected to limit further pressure on the exchange rate. Weak consumer demand and low global commodity prices are expected to limit inflation pressure. However, significant weakening of hryvnia vs US dollar and an increase in inflation expectations will drive the consumer inflation up to 7.5% yoy in December 2020.



Note: P - preliminary, F - forecast
Source: Ukrstat, IER calculations

Key assumptions:

- Quarantine restrictions on economic activity will be lifted by the end of second quarter of 2020
- Stimulus measures in developed economies will be sufficiently effective to prevent catastrophic damage to global economy but recovery will be gradual.
- Cooperation with international donors will continue in 2020.
- There will be no breakdown in international trade.
- Ukrainian financial sector will remain stable
- International travel restrictions will remain throughout 2020

Tables

Table 1. National Accounts (GDP)

		2013	2014	2015	2016	2017	2018	2019P	2020F
Nominal GDP	UAH bn	1465	1587	1989	2385	2984	3561	4058	4035
	USD bn	183.3	133.7	91.2	93.4	112.2	130.9	157.1	140.6
Real GDP	% yoy	0.0	-6.6	-9.8	2.4	2.5	3.4	3.2	-5.9
GDP expenditure side components									
Private consumption, real	% yoy	6.9	-8.3	-19.8	2.7	9.5	9.3	11.9	-6.6
State consumption, real	% yoy	-0.9	1.1	1.7	-0.5	5.2	-0.1	-4.9	-1.7
Fixed capital accumulation, real	% yoy	-8.4	-24.0	-9.2	20.4	16.1	16.6	14.2	-16.3
Exports, real	% yoy	-8.1	-14.2	-13.2	-1.8	3.8	-1.3	6.7	-10.7
Imports, real	% yoy	-3.5	-22.1	-16.7	9.3	12.6	3.0	6.3	-14.5
GDP production side components									
Agriculture, real	% yoy	13.0	2.3	-4.4	6.3	-2.5	8.0	1.3	-6.0
Industry, real	% yoy	-7.1	-10.5	10.4	2.3	0.2	1.8	-0.5	-8.8
Trade, repair services, real	% yoy	0.2	-13.9	-15.6	4.3	2.6	4.6	3.6	-9.0
Transport, real	% yoy	0.4	-10.0	-2.5	3.1	4.2	1.6	3.5	-11.5

Table 2. Incomes and Unemployment rate

		2013	2014	2015	2016	2017	2018	2019P	2020F
Real disposable incomes	% yoy	6.1	-8.4	-22.2	0.8	10.9	9.9	14.9	-11.0
Unemployment rate (ILO methodology, economically active individuals aged between 15 and 70 years old)	%	7.3	9.3	9.1	9.3	9.5	9.1	8.2	9.5

Table 3. Fiscal Indicators

		2013	2014	2015	2016	2017	2018	2019P	2020F
Consolidated fiscal revenues	UAH bn	438.9	455.9	652.0	782.9	1017.0	1184.3	1289.8	1215.5
	% of	30.0	28.7	32.8	32.8	34.1	33.3	31.8	30.1
EPT revenues	UAH bn	55.0	40.2	39.1	60.2	73.4	106.2	117.3	113.8
	% of	3.8	2.5	2.0	2.5	2.5	3.0	2.9	2.8
VAT revenues	UAH bn	128.3	139.0	178.5	235.5	314.0	374.5	378.7	356.6
	% of	8.8	8.8	9.0	9.9	10.5	10.5	9.3	8.8
PIT revenues	UAH bn	72.2	75.2	100.0	138.8	185.7	229.9	275.5	266.2
	% of	4.9	4.7	5.0	5.8	6.2	6.5	6.8	6.6
Consolidated fiscal expenditures	UAH bn	505.8	523.0	679.9	835.6	1056.8	1223.3	1351.2	1433.0
	% of	34.5	33.0	34.2	35.0	35.4	34.4	33.3	35.5
Current consolidated fiscal	% of	32.5	31.7	31.8	32.0	32.1	31.1	30.0	32.9
Capital consolidated fiscal	% of	2.0	1.3	2.4	3.1	3.3	3.3	3.3	2.6
Consolidated fiscal balance (without bank and Naftogaz recapitalisation)*	% of GDP	-4.3	-4.5	-1.6	-2.3	-1.4	-1.1	-1.5	-5.4

* Consolidated fiscal balance as reported by the State Treasury

Table 4. Balance of Payments

		2013	2014	2015	2016	2017	2018	2019P	2020F
Current Account balance	USD bn	-16.8	-4.6	1.6	-1.3	-2.4	-4.5	-1.1	-5.6
	% of	-9.1	-3.4	1.8	-1.4	-2.2	-3.4	-0.7	-4.0
Exports of goods	USD bn	65.0	50.6	35.4	33.6	39.7	43.3	46.1	38.7
Imports of goods	USD bn	-85.0	-57.7	-38.9	-40.5	-49.4	-56.0	-60.1	-50.1
Balance of services	USD bn	4.1	2.5	1.1	0.5	1.0	1.4	1.8	3.6
Capital and Financial Accounts	USD bn	18.7	-9.2	-0.4	3.3	4.5	5.7	6.1	-2.2
Direct investments	USD bn	3.4	0.3	3.0	3.3	2.6	2.4	2.5	0.5

Table 5. CPI and exchange rate

		2013	2014	2015	2016	2017	2018	2019P	2020F
Consumer price index (CPI)	% yoy	-0.3	12.1	48.7	13.9	14.4	10.9	7.9	4.6
	% yoy	0.5	24.9	43.3	12.4	13.7	9.8	4.1	7.5
Exchange rate (official)	aop	7.99	11.87	21.81	25.55	26.60	27.20	25.84	28.70
	eop	7.99	15.77	24.00	27.19	28.07	27.69	23.69	29.00

Note: P - preliminary, F - forecast, yoy - year-on-year change, aop - average of the period, eop - end of period
GDP data based on SNA-2008 and KVED-2010. Since 2010 data excludes Crimea and Sevastopol.

Forecast calculations were completed on March 31, 2020.

**Abbreviations:**

yoy	year-on-year change	NBU	National Bank of Ukraine
avg	average	USD	US dollar
cum	cumulative	UAH	hryvnia
mom	month on month change	m	million
qoq	quarter on quarter change	bn	billion
p.a.	per annum	EPT	Enterprise profit tax
eop	end of the period	VAT	Value added tax
aop	average of the period	PIT	Personal income tax
Ukrstat	State Statistics Service of Ukraine	SSC	Single social contribution

Contact information:***Institute for Economic Research
and Policy Consulting***

Reytarska St. 8/5-A, 01030 Kyiv

Tel. (+38044) 278-6342

Fax (+38044) 278-6336

E-mail: institute@ier.kyiv.ua<http://www.ier.com.ua>**Head of the Board**

Igor Burakovsky

burakovsky@ier.kyiv.ua**Chief Executive**

Oksana Kuziakiv

kuziakiv@ier.kyiv.ua**Academic Director**

Veronika Movchan

movchan@ier.kyiv.ua**Centre for Economic Studies**

Oleksandra Betliy

betliy@ier.kyiv.ua

Vitaliy Kravchuk

kravchuk@ier.kyiv.ua

Iryna Kosse

kosse@ier.kyiv.ua

Kateryna Furmanets

furmanets@ier.kyiv.ua

Yevhen Anhel

anhel@ier.kyiv.ua

Andrii Butin

butin@ier.kyiv.ua

Kateryna Furmanets

furmanets@ier.kyiv.ua**Center for Contemporary Society Studies**

Iryna Fedets

fedets@ier.kyiv.ua**Disclaimer**

This Macroeconomic Forecast of Ukraine has been prepared by the Institute for Economic Research and Policy Consulting for informational purposes only. Any forecast figures and estimates in this report are statements of our judgments as of date publication and can be changed without notice. Any opinions expressed herein may differ from the views expressed by the government, business entities and research institutions due to different assumptions and/or methodology. Although we used our best efforts in preparing this forecast, we cannot ensure that it is not untrue or misleading at the time of publication. The Institute for Economic Research and Policy Consulting makes no representation that the information contained herein is accurate or complete. We make no guarantees for the usefulness of this report as a basis for any particular purposes. The IER does not take any responsibility for any losses or another injury that directly or indirectly resulted from the use of any part of this publication. This report in whole or in part may not be reproduced, distributed or published by any person for any purpose without the prior Institute's permission. When quoting please cite Institute for Economic Research and Policy Consulting.