

## MARCH ECONOMIC OVERVIEW. HOW THE UKRAINIAN IT SECTOR IS TRANSFORMING.



WAR

# WAR UPDATE



- Heavy fighting is still concentrated in Bakhmut area. The battle of Bakhmut has been going for more than 7 months now.
- Russian offensive efforts during the winter did not produce substantive results. However, Ukraine was forced to switch to defense.
- Both sides are preparing for a spring campaign. With the help of its partners, Ukraine is preparing new brigades equipped with Western tanks and other armored vehicles.
- Russia started to use guided bombs to strike Ukrainian civilian objects from afar (e.g., in Bilopillia on 24 March). There is a significant risk of further strikes including in larger cities like Sumy and Kharkiv. Bombs are much more deadly than missiles as they can carry more explosives.

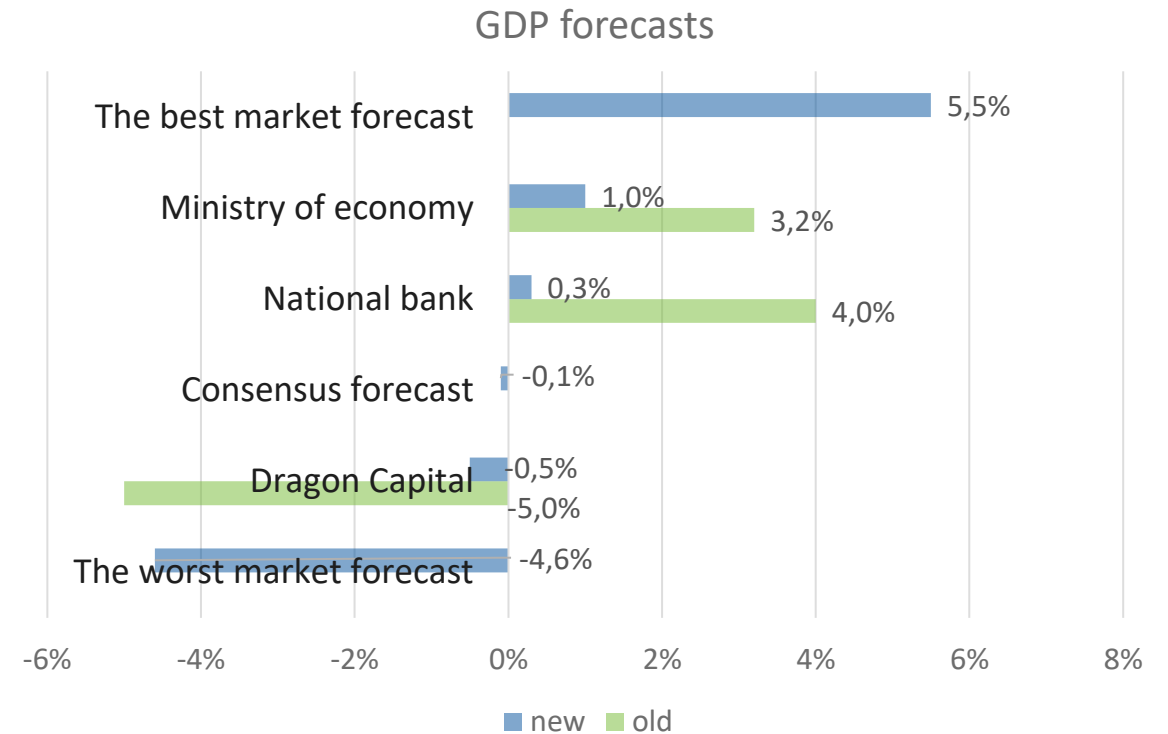


# MACROECONOMIC TRENDS

# MACRO

## GDP will barely grow this year

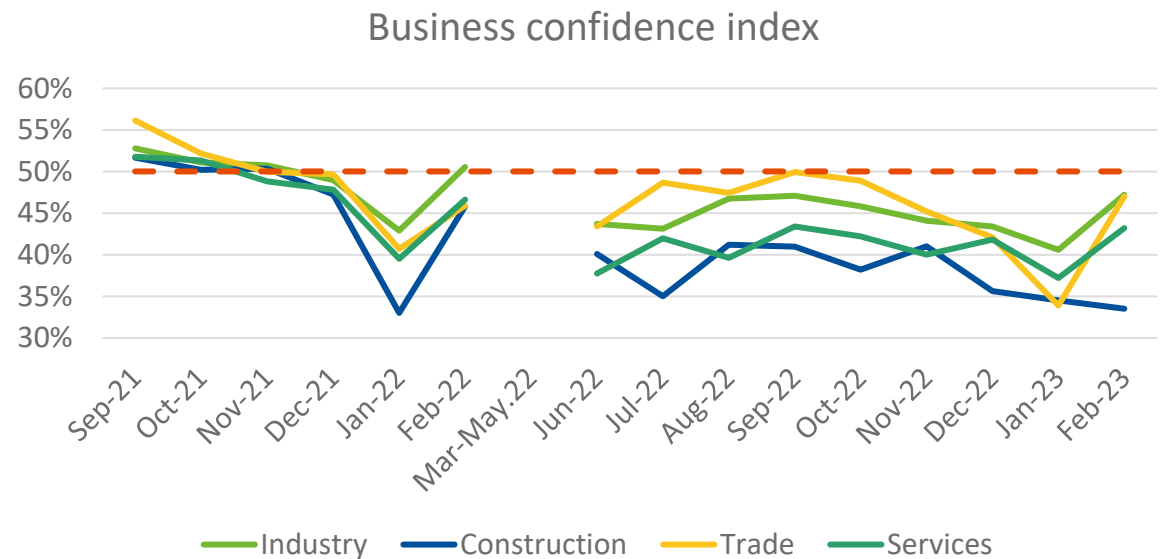
- Revised data show that GDP in 2022 contracted by 29%;
- Ministry of economy worsens its forecast to 1% growth, still higher than the forecast of the National bank (0,3% growth);
- Private analysts are more pessimistic, consensus forecast is 0,1% contraction.



Sources: Ministry of Economy, NBU, Dragon Capital, CES

## Business confidence started to recover

- In February, the Business confidence index up to 45 comparing to 37.5 in January, after four months of decrease, almost restoring to pre-blackouts wartime maxima;
- Primary reason of optimism is the restoration of electricity supply;
- The only exception is construction, where pessimism accumulates on low investment demand.



Source: National bank.

50% is neutral level (number of optimists equals the number of pessimists)

# MACRO

## War damages increased by 3.5 billion USD

- Damage assessment increased by 3.5 billion USD during the month;
- Growth is mostly attributed to energy infrastructure and agriculture;
- Damage for the newly added category (forest) estimated at 4.5 billion USD.

Asset type	Mar'23	Feb'23	Change
Residential buildings	53.8	54.0	-0.2
Transportation infrastructure	36.2	36.2	0.0
Industry	11.3	11.1	0.2
Education	8,9	8.8	0.1
Agriculture and land	8.7	7.8	0.9
Energy infrastructure	8.1	7.0	1.1
Other assets	16.8	15.4	1.4
<b>TOTAL</b>	<b>143.8</b>	<b>140.3</b>	<b>3.5</b>

Sources: KSE, Russia will pay project

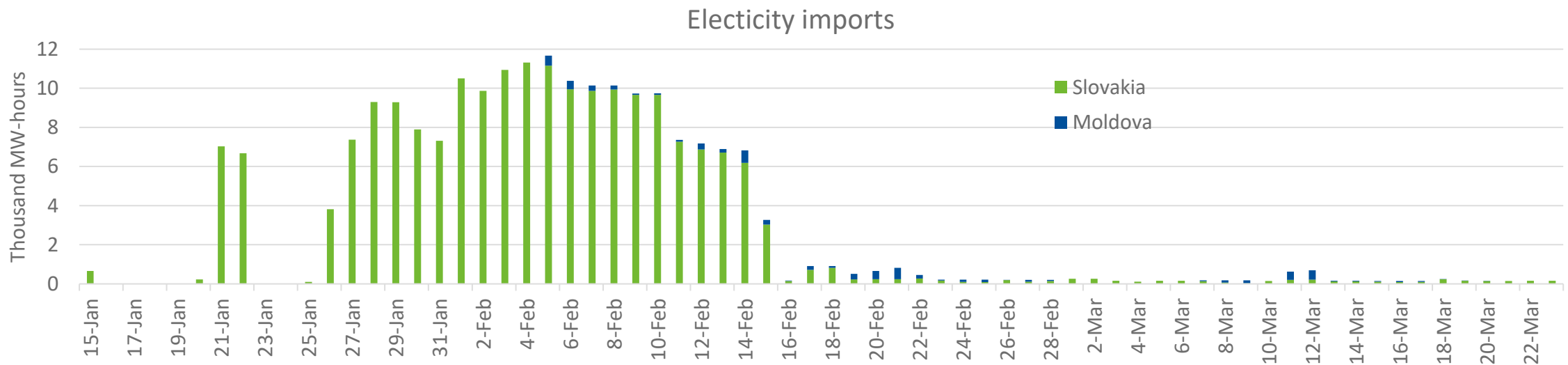
# SECTORAL ANALYSIS



# SECTORAL

## Energy: Electricity supply is almost stable

- Missile count almost reached 900 in 17 waves of hits on energy infrastructure;
- Almost no power cuts for seven weeks, except for some regions;
- After eight months of negotiations, IAEA dropped the idea to create DMZ on ZNPP;
- Ukraine strike new deals on small nuclear reactors and nuclear fuel.



# SECTORAL

## Metals: Capacity utilization increases

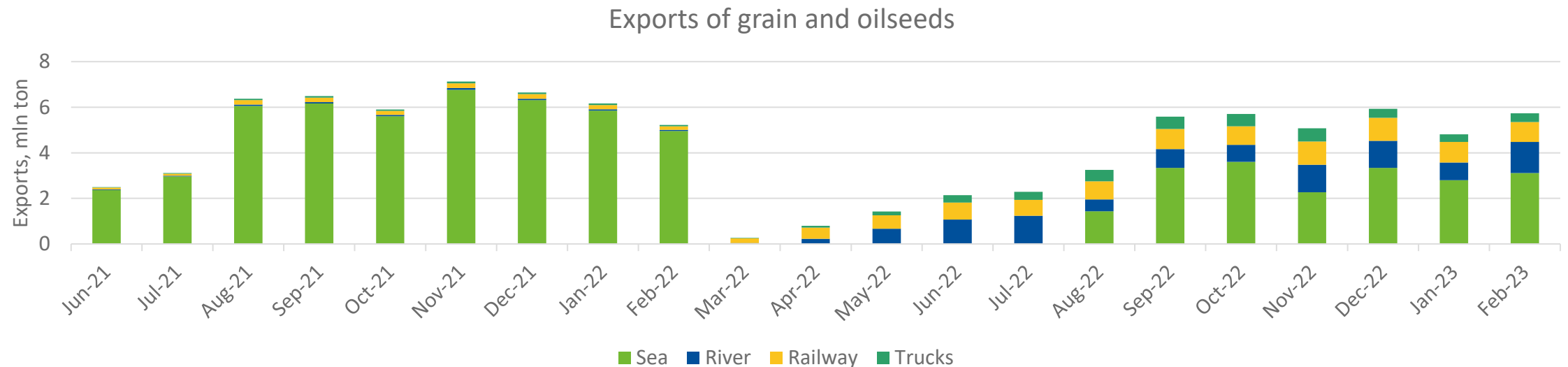


- Metinvest relaunched Northern and Ingulets MPPs after shutdown in summer 2022;
- Zaporizhstal launched third blast furnace;
- Kametstal to use some rolling mills at full capacity;
- Centravis Production Ukraine works at full capacity and is expanding;
- Interpipe Steel halted production due to the deficit of scrap metal.

Source: Trading Economics

## Agriculture: Grain Deal renewed

- Grain Deal renewed for another four months, after tough negotiations and sabotage;
- Sowing campaign started. Sown area to drop by 25% comparing to 2021. Comparing to 2022, grains area -12.1%, oilseeds area +11.6%;
- Cabinet restored 5-7-9% loans to farmers; loans in 2023 reached 20 billion UAH;
- Defense ministry systematized demining;
- Parliament passed a new law on fishing, with auctions and electronic services (E-fish).

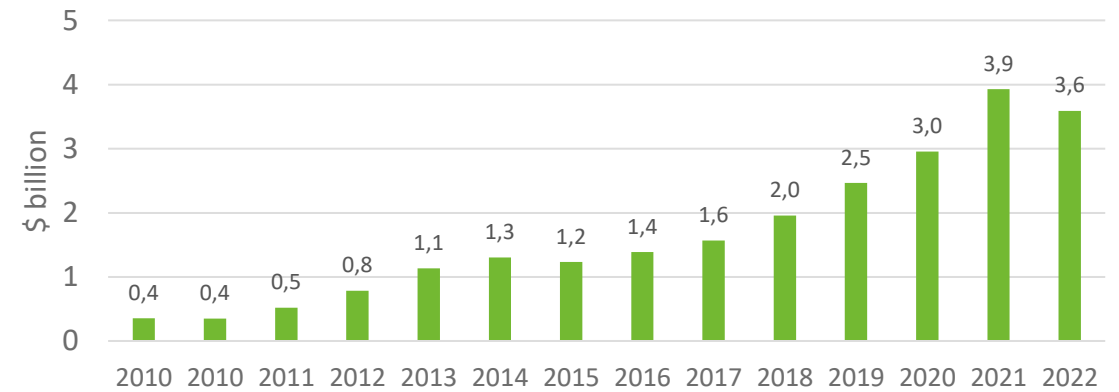


# SECTORAL

## IT: Prospects are unclear

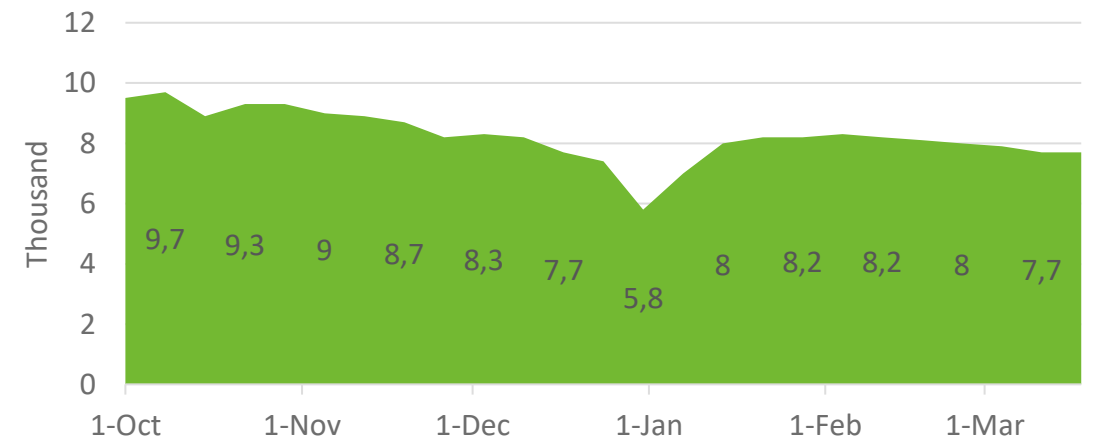
- Exports of IT services down by 9%, still second-best annual performance and still much better than GDP dynamics;
- Global IT spending down by 0.2% in 2022;
- Top50 personnel shrank to 92 thousand from 100 thousand a year ago;
- Job market is a buyer one: this year, there are less vacancies and more reactions to vacancies;
- Global demand shrinks; in 2023, already 154 thousand layoffs in 529 companies (comparing to 161 thousand for 2022).

Exports of IT services



Sources: Ukrstat

Number of IT vacancies



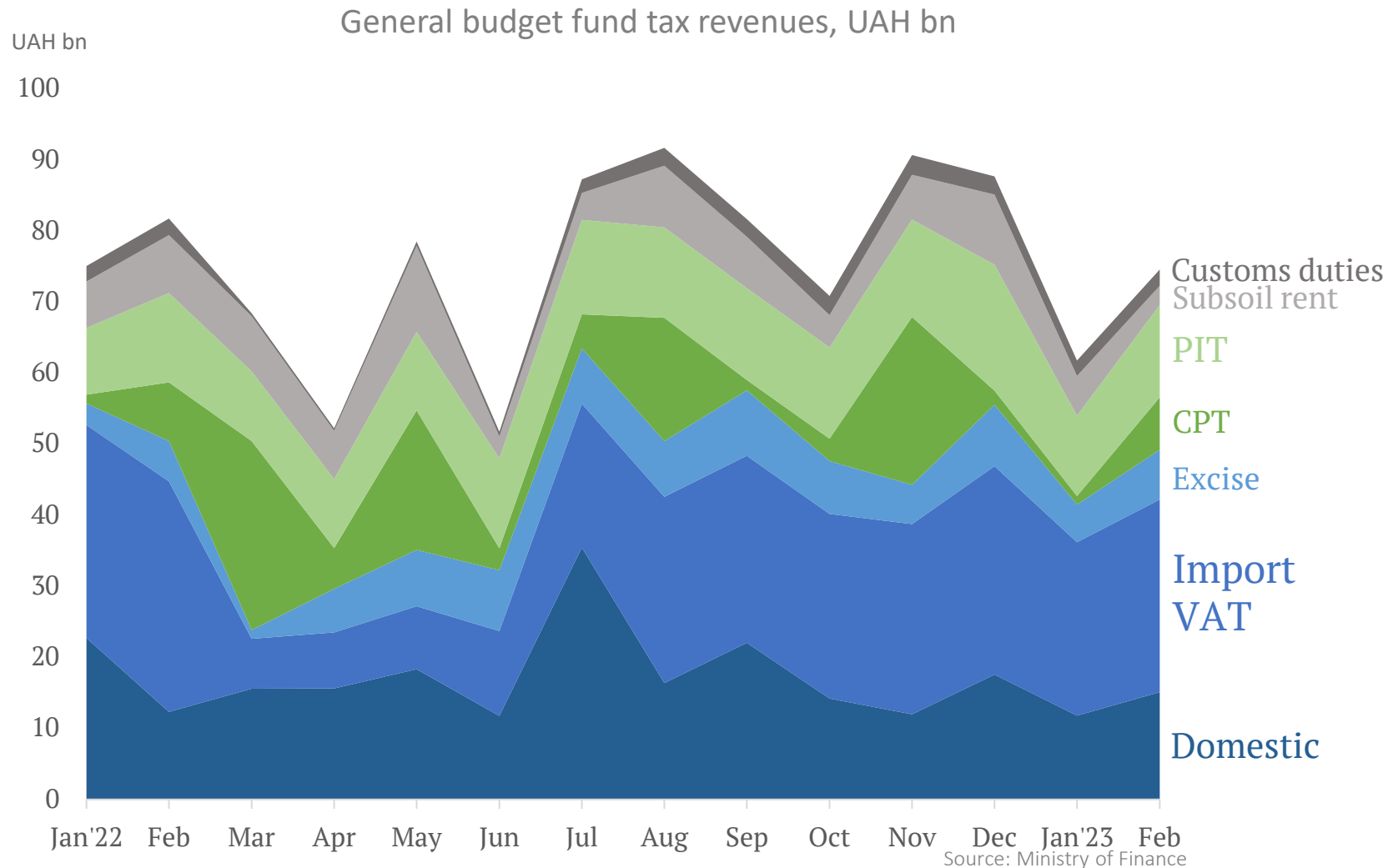
Sources: Djinni



# FISCAL SECTOR

# FISCAL SECTOR

## Tax revenues in January undermined by VAT and gas rent payments

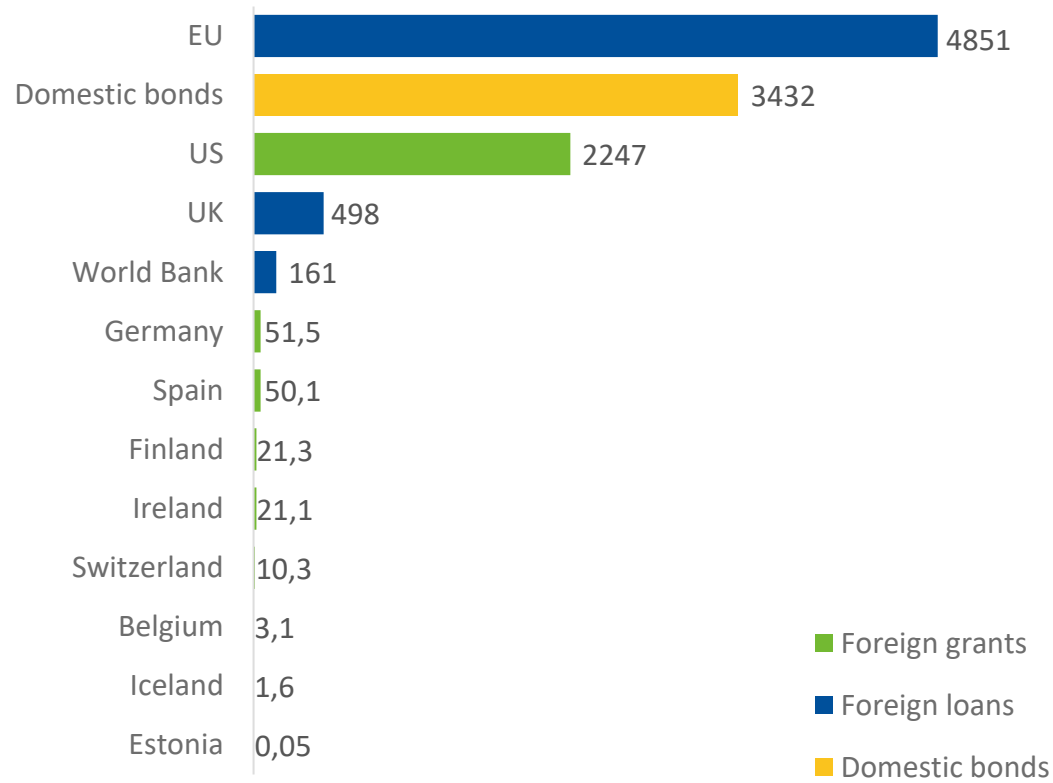


- **Imports** slightly rebounded in February, increasing related tax revenues (imports VAT and customs duties) by UAH 2.8 bln MoM, to **UAH 29.4 bln**
- The gross **domestic VAT** was the lowest in 8 months (UAH 21.7 bln or USD 0.59 bln), but the net amount (**UAH 15.1 bln**) increased MoM due to low VAT refunds
- **Subsoil rent** payments were at the lowest since the beginning of Russian invasion (**UAH 2.7 bln**)
- This was offset by good **excise** (UAH 7 bln) and **CPT** revenues (**UAH 7.4 bln**)
- The detailed breakdown by sources is not available as only preliminary Feb figures were released by MoF

# FISCAL SECTOR

## Foreign financing

Additional financing of Ukraine's state budget  
as of 23 March, USD mln



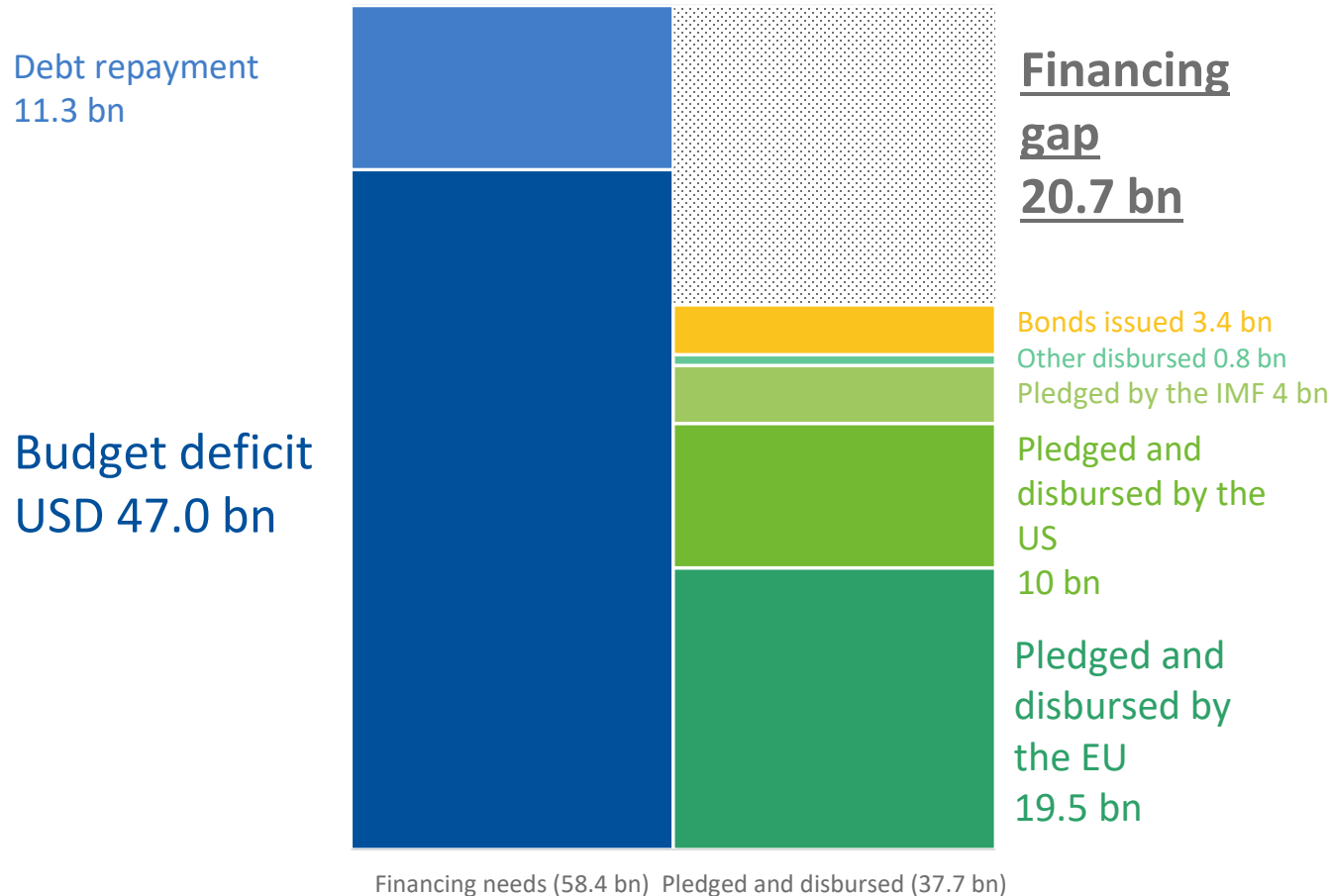
Source: Ministry of Finance

- Ukraine has received USD 1.6 bn of foreign financing in March in form of a EUR 1.5 bn loan from the European Union.
- On 21 March 2023, Ukraine and the IMF reached the staff-level agreement on 4-year Extended Fund Facility (EFF) Arrangement of USD 15.6 bn. According to FT, USD 4-5 bn of this sum will be disbursed in 2023; no official info regarding disbursement schedule yet.
- Canada budget 2023 includes USD 1.8 bn of a new loan to Ukraine, to be disbursed through the IMF Administered Account for Ukraine.

# FISCAL SECTOR

With increased budget spending, a question of financing gap arises

Financing gap estimate of Ukraine's state budget in 2023 as of 24 March



- On 21 March, Verkhovna Rada increased budget spending by UAH 537 bn (USD 14.7 bn). 96.5% of the increase will be used to finance the army.
- Most of the sum will be financed by increasing the budget deficit by USD 11.5 bn.
- Therefore, Ukraine's state budget financing needs will increase to USD 58.4 bn. However, only USD 34.3 bn of foreign financing have been pledged and disbursed in 2023 so far, and the government has issued USD 3.4 bn of domestic bonds.
- This leaves a **financing gap of USD 20.7 bn.**
- A part of the gap will be likely financed by additional issues of domestic bonds, which can cover approx. USD 10 bn more this year if issued at the current rate.
- However, there still will be a gap of almost USD 11 bn which **has to be financed by additional pledges by foreign partners.**

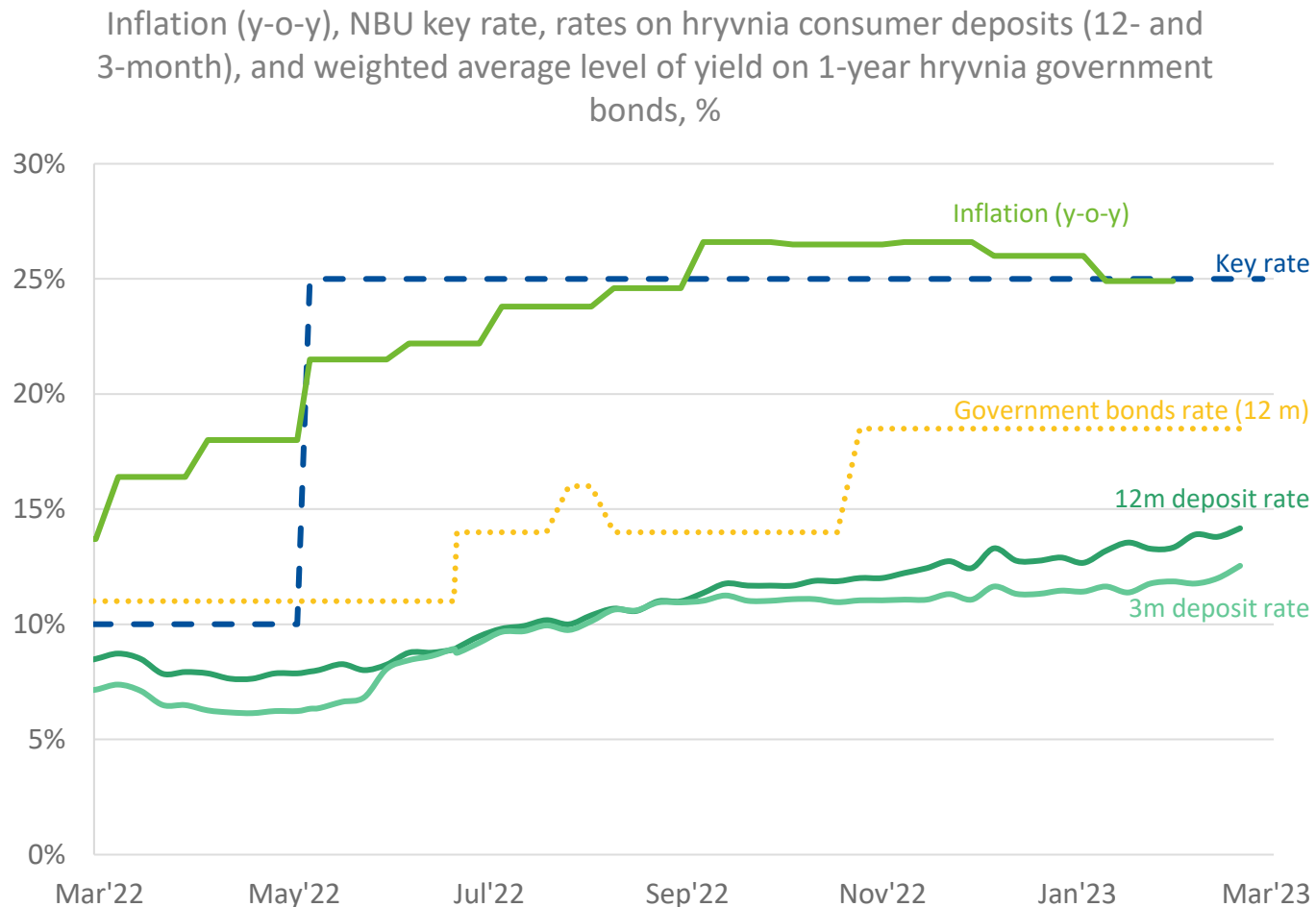
Sources: Verkhovna Rada, Ministry of Finance, CES research



# MONETARY AND FX POLICY

# MONETARY POLICY

## The NBU tightened the mandatory reserves requirements



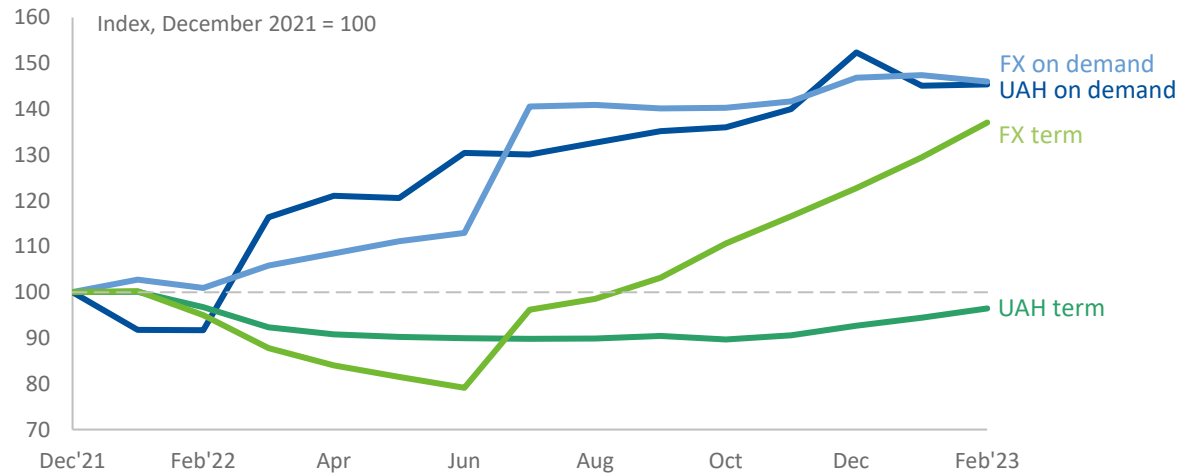
Sources: NBU, State Statistics Service, UIRD

- The key policy rate remains unchanged at 25% p.a. According to the current plans of the NBU, it will stay at the same level to curb inflation at least until the end of Q1 2024. However, most members of the Monetary Policy Committee of the NBU assume that the key rate may be changed earlier if the conjuncture allows.
- The yield of one-year hryvnia military bonds remains at 18.5%.
- Average rates on retail deposits (UIRD) continue to increase slowly. It is the effect of the changes to the requirements for mandatory reserves of banks for funds on current accounts by the National Bank of Ukraine.
- In February, inflation dropped to 24.9% y-o-y and the inflation expectations of economic agents tend to decrease too.

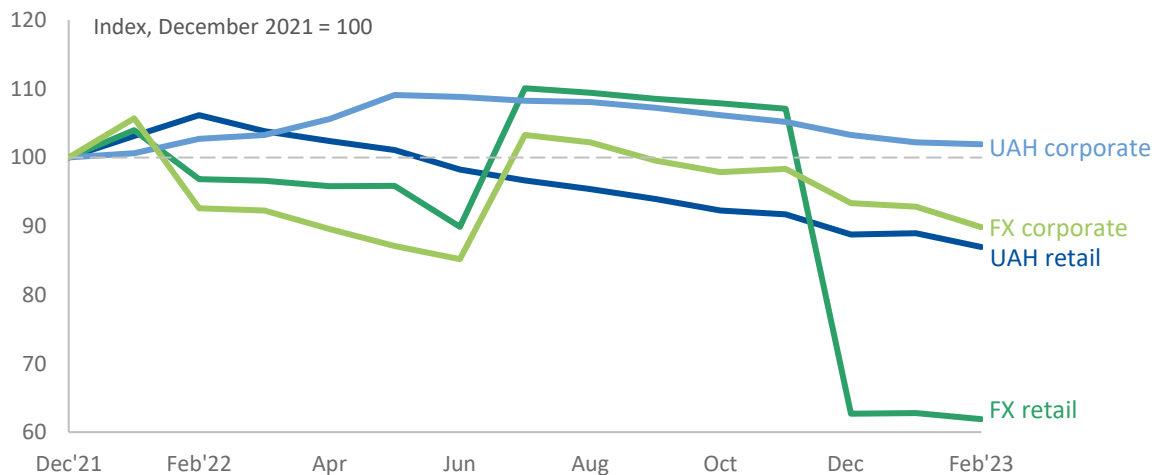
# BANKING SECTOR

## Loans continue to decrease; term deposits on the rise

Household deposits by currency and maturity, index, December 2021 = 100



Loans to residents by currency and sector, index, December 2021 = 100

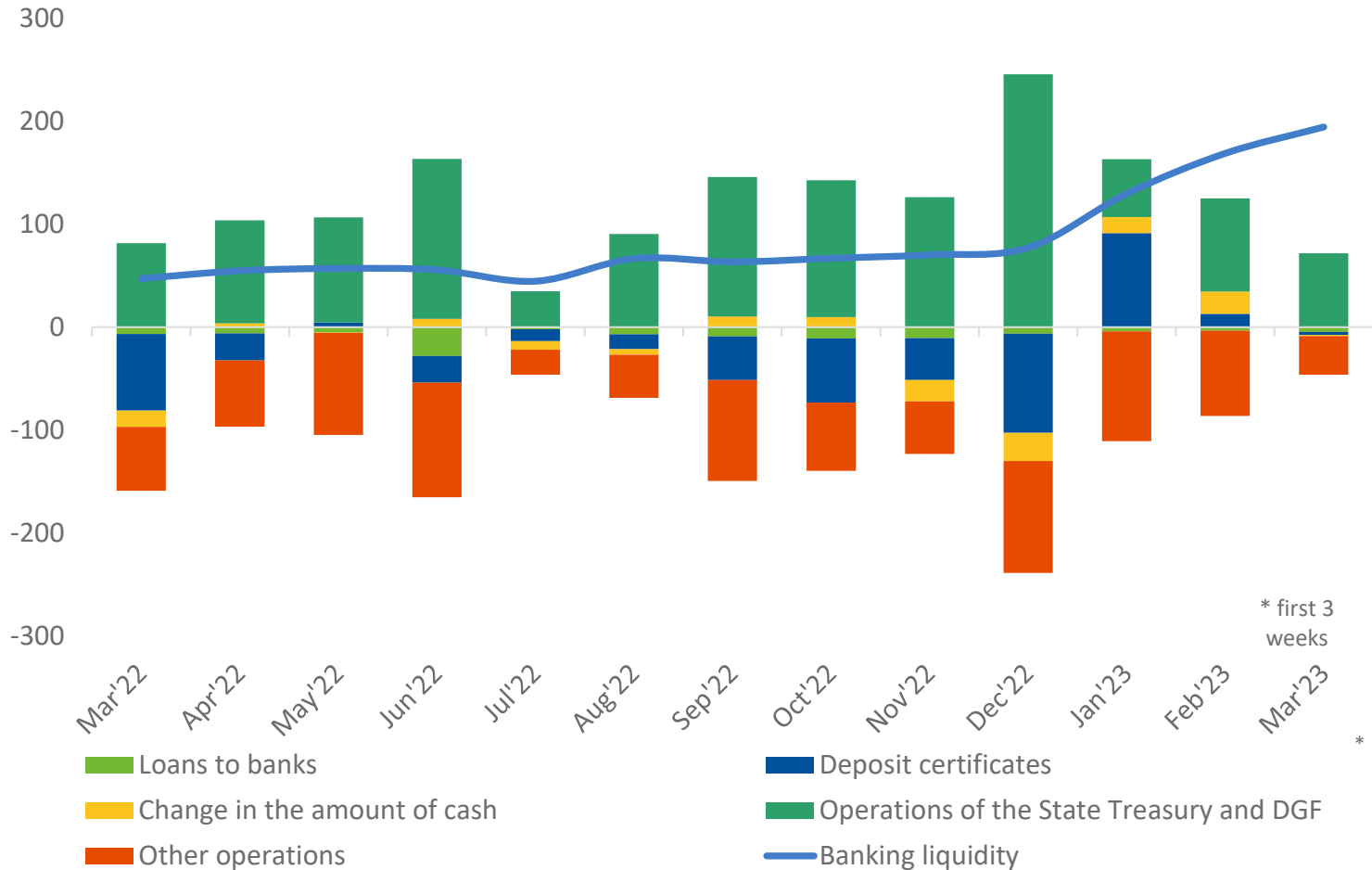


- The volume of household deposits continues to increase, with term deposits in foreign currency showing the greatest growth because of the popularity of a 3-month deposit that allows customers to buy dollars for a rate that is lower than on the cash market.
- However, term deposits in hryvnia increase very slowly. The key reason for that is the deposit rates which are too low to make deposits attractive. The NBU sees a problem in this, with some members of the Monetary Policy Committee at a meeting on 15 March calling for administrative measures to be taken against key banks (PrivatBank, Oschadbank) to increase deposit rates.
- Loans to residents continue to decrease. With war risks still present, loans are unlikely to recover without government support or war risk insurance.

# BANKING SECTOR

## The liquidity of the banking system is growing

Factors affecting the liquidity of the banking system, UAH bn



Source: NBU

- In January 2023, the liquidity of the banking system started to grow at a higher speed than it was in 2022. One of the main reasons for it is the government's considerable increase in spending.
- To tie up free liquidity, the NBU has increased mandatory reserve requirements since mid-February. Moreover, the regulator enabled banks to meet up to 50% of their total required reserves with "benchmark bonds."
- After the increase in reservation standards from mid-February till the end of three weeks of March, the average daily volume of Deposit Certificates decreased by UAH 72.7 billion, and the average daily volume of correspondent accounts increased by UAH 28.9 billion.

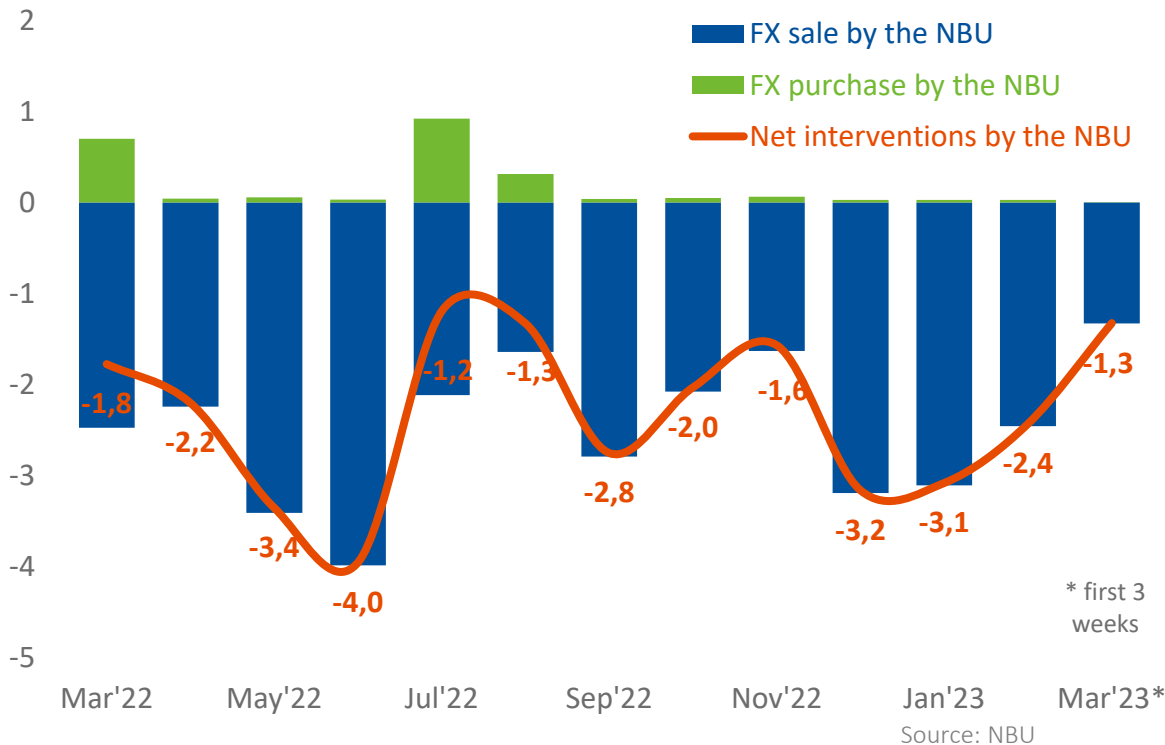
# FX POLICY

## UAH has strengthened; small decrease in international reserves

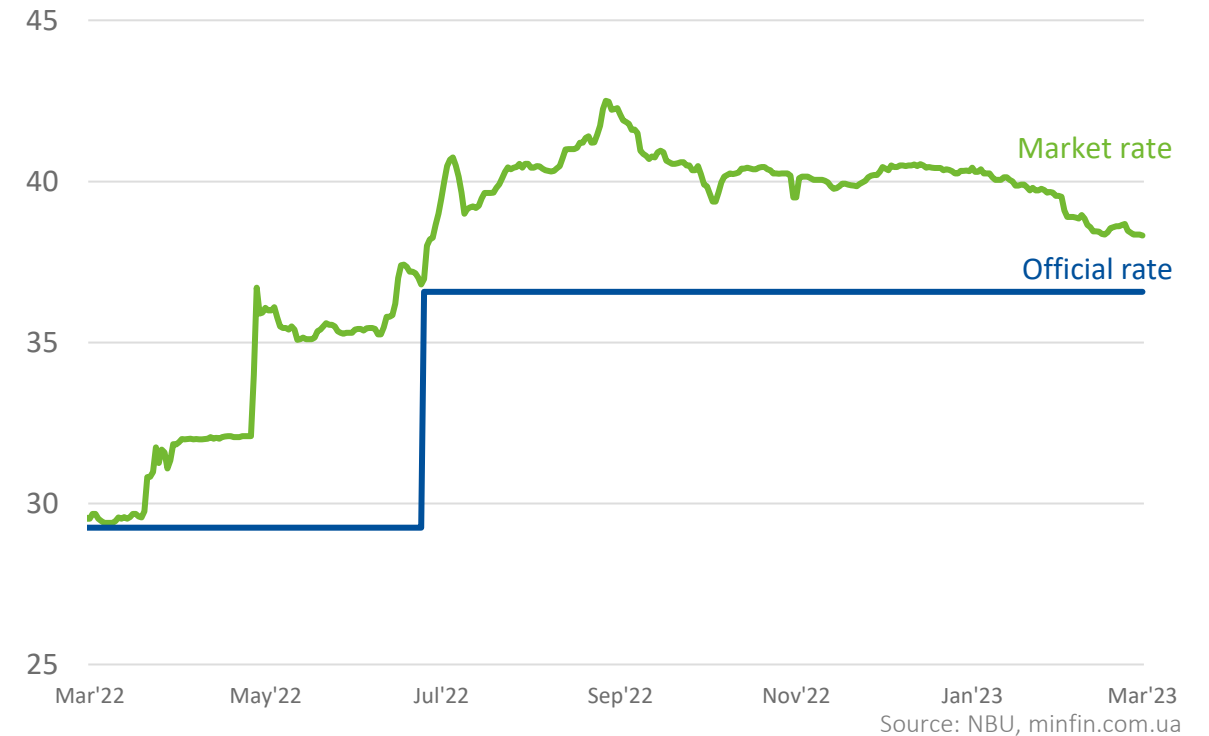
There is still a need for large FX sales by the NBU. **Ukraine's international reserves decreased by 3.5% in February, reaching 28.9 USD bn.** However, the international reserves remain at an appropriate level: they cover 3.7 months of future imports, which is more than the acceptable level of 3 months.

The official rate remains fixed at 36.57 UAH/USD. Hryvnia has strengthened from 39.60–40.05 UAH/USD on 15 February to 38.10–38.65 UAH/USD on 15 March. The NBU allowed non-residents to repatriate the interest on Ukrainian government bonds received after 1 April, which should encourage non-residents to invest more actively in Ukrainian bonds and indicates the NBU's confidence in the possibility of partially easing capital movement restrictions.

NBU foreign exchange interventions, USD bn



Average daily official and market exchange rates UAH/USD





THANK YOU.

*This text reflects the opinion of the authors and does not necessarily represent the views of the German Economic Team.*