Макроэкономические показатели Украины

Key considerations:

Global environment is supportive for macroeconomic stabilization

GDP growth and domestic consumption likely to be above expectations

Large swings in inflation are behind us

Both current and capital accounts show visible improvements

Ukraine with the new government likely to deliver on IMF agenda (for the next review)

UAH: asymmetric managed float regime with less controls

We are constructive on local currency in the short run, but remain conservative overall

Interest rates: lower, but it will take a while they feed in improved credit conditions

Global environment: low growth, low rates and jokers!

Our global forecasts remain downbeat for this year, with GDP likely to grow by 3.0%, a notch softer than in 2015. Next year should be a bit better, at 3.4%, but with downside risks.

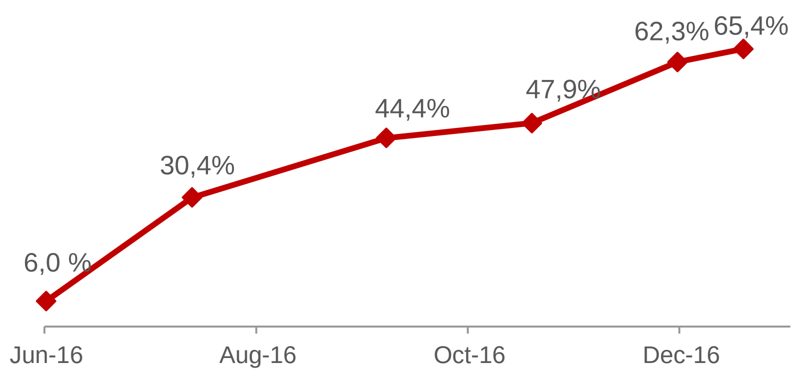
Global monetary policy will be expansionary. We see the Fed delivering maximum one hike through end-2017, and the ECB extending QE. Japan will cut rates.

US likely to demonstrate slower growth and job creation. US economy will decelerate to 1.5-1.6% annual growth rates which we estimate is a potential growth level.

China has seen major monetary and fiscal easing with money supply accelerating to 23% y/y. Pressure has come off the RMB with the latest reserves prints showing increase.

June is a very eventful month, with several important points (potentially jokers) for financial markets: the Fed meeting on 15th of June 2016 and the BREXIT referendum in Britain on 23rd of June.

Implied probability of a rate hike during next FOMC meetings, %



Key FX rates, GDP and interest rates forecasts, BNP Paribas GO Q2

	Year				
FX rates (3)	13	14	15 (1)	16 (1)	17 (1)
EURUSD	1.38	1.21	1.09	1.14	1.05
USDJPY	105	120	120	110	124
USDRMB	6.05	6.21	6.49	6.60	6.74
EURJPY	145	145	131	125	130
EURGBP	0.83	0.78	0.74	0.72	0.68
GBPUSD	1.66	1.56	1.47	1.58	1.54
GDP	Year				
(% y/y)	13	14	15 (1)	16 (1)	17 (1)
World (2)	3.4	3.4	3.1	3.0	3.4
US	1.5	2.4	2.4	1.6	1.5
Eurozone	-0.2	0.9	1.5	1.5	1.3
Japan	1.4	0.0	0.6	0.2	0.2
China	7.7	7.3	6.9	6.6	6.3
	Year				
Interest rates (3)	13	14	15 (1)	16 (1)	17 (1)
US					
Fed funds rate (%)	0-0.25	0-0.25	0.25-0.50	0.25-0.50	0.25-0.50
3-month rate (%)	0.25	0.26	0.61	0.70	1.05
10-year rate (%)	3.03	2.17	2.27	1.60	1.75
Eurozone					
Refinancing rate	0.25	0.05	0.05	0.00	0.00
3-month rate (%)	0.29	0.08	-0.13	-0.30	-0.30
10-year rate (%) (4)	1.94	0.54	0.63	-0.20	-0.20

Footnotes: (1) - forecast; (2) - BNP estimates based on country weights in IMF Global Economic outlook, Apr 2016, (3) - end period (4) – Bund yield

Commodity markets are very supportive… so far

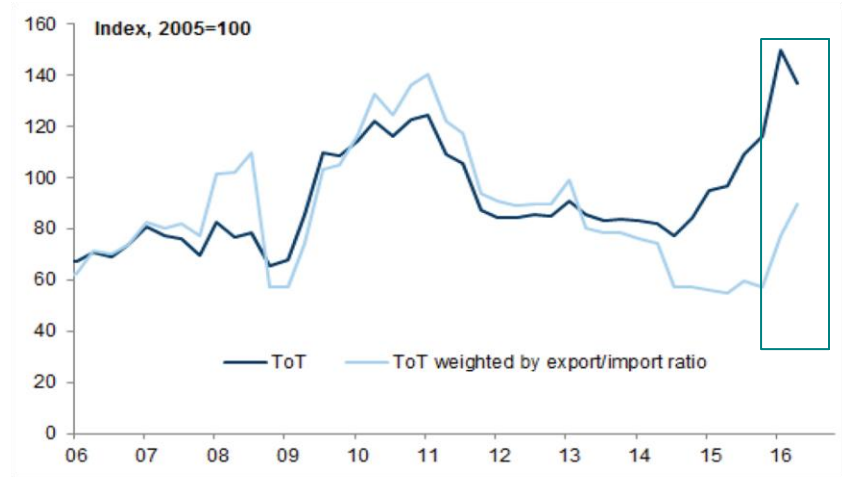
Impressive rally in steel and ore this year recorded +80% and +60% growth. It is just the opposite of 2012-2014 when lower metals and higher oil sent Ukraine into 3 year recession.

Terms of trade indices for Ukraine are at their highest levels since 2011. Export prices have clearly outpaced import prices, generating favorable conditions for the external trade.

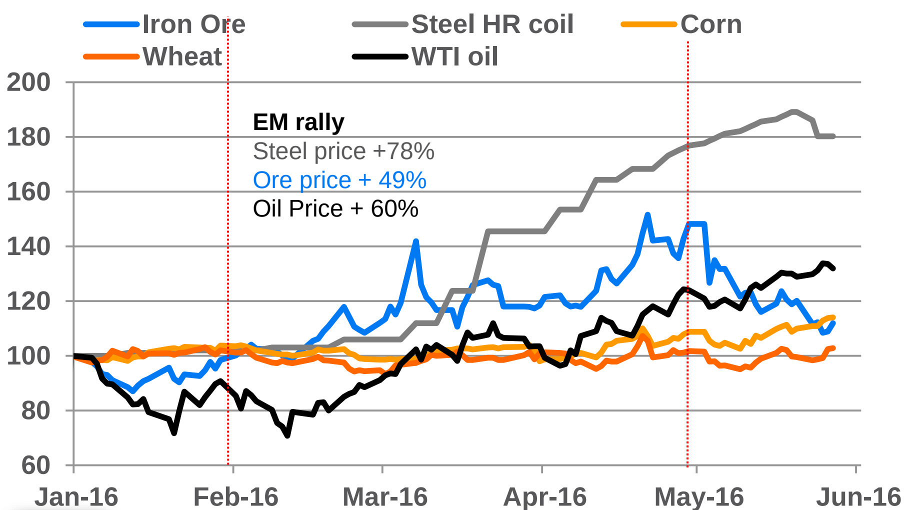
Deceleration in Chinese demand is the key risk trigger for metal prices. Earlier China has managed to generate internal stimulus to prevent the slowdown, but it became even more addicted to ultra-expansionary policies.

Our central scenario is a gradual decrease of ore and steel prices while oil has a potential to adjust higher once physical oversupply issue is addressed by demand.

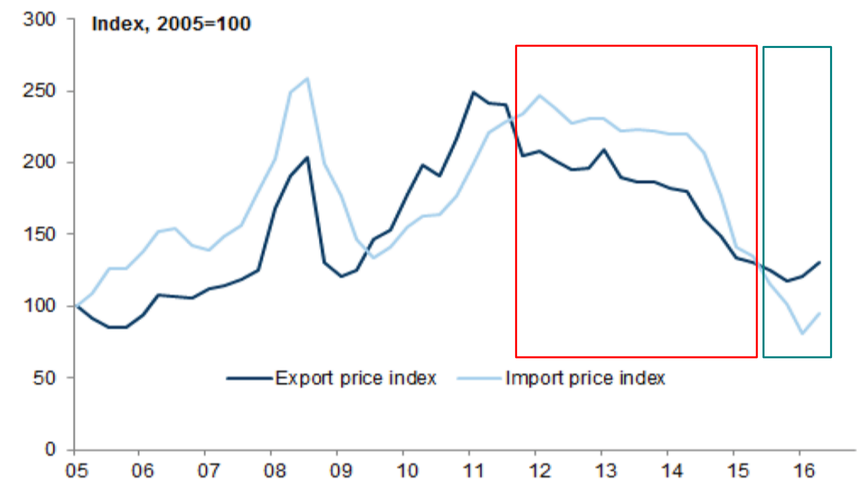
Terms of trade indices for Ukraine



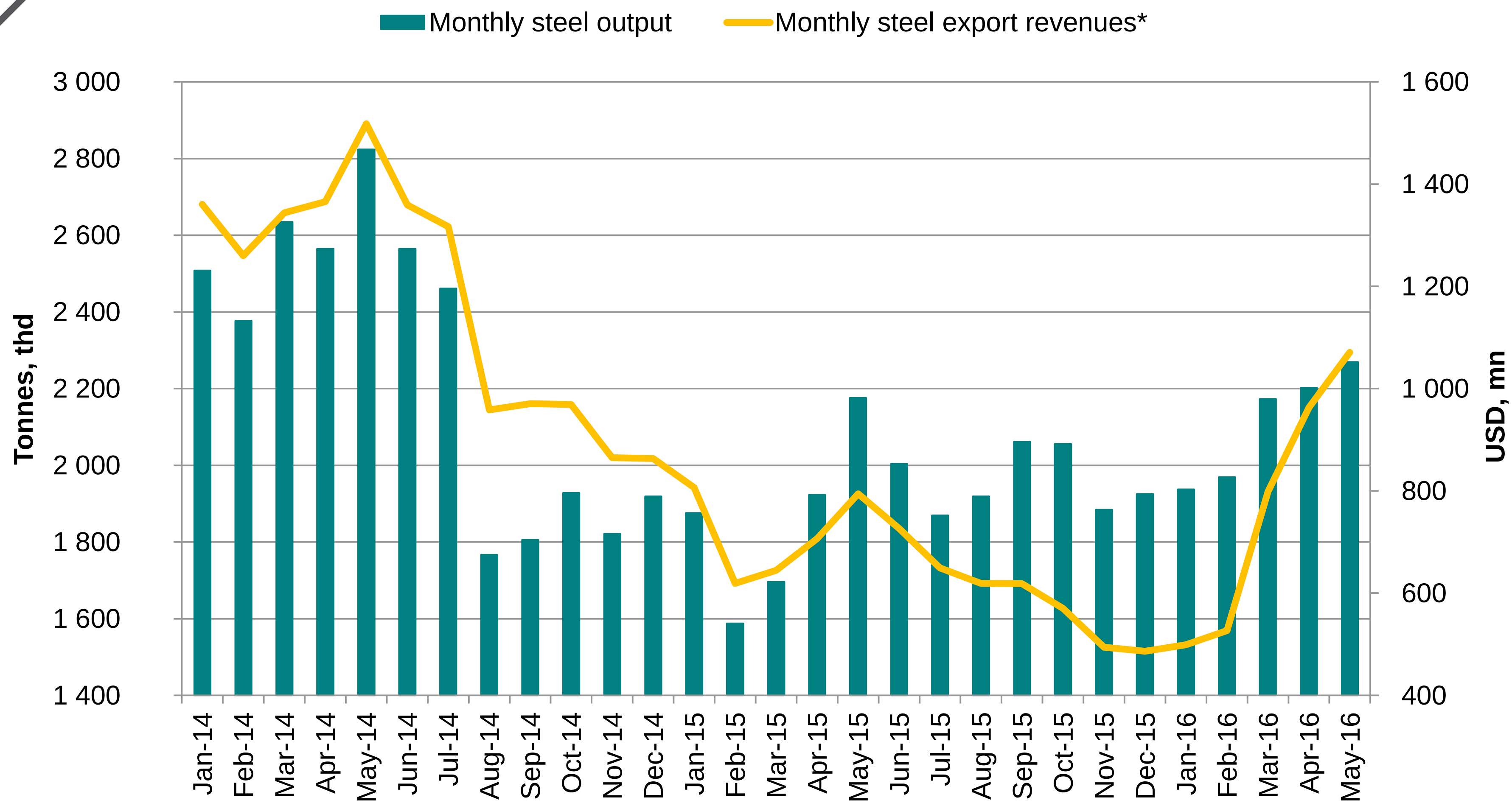
Commodities prices change YTD



Indices of export and import prices for Ukraine

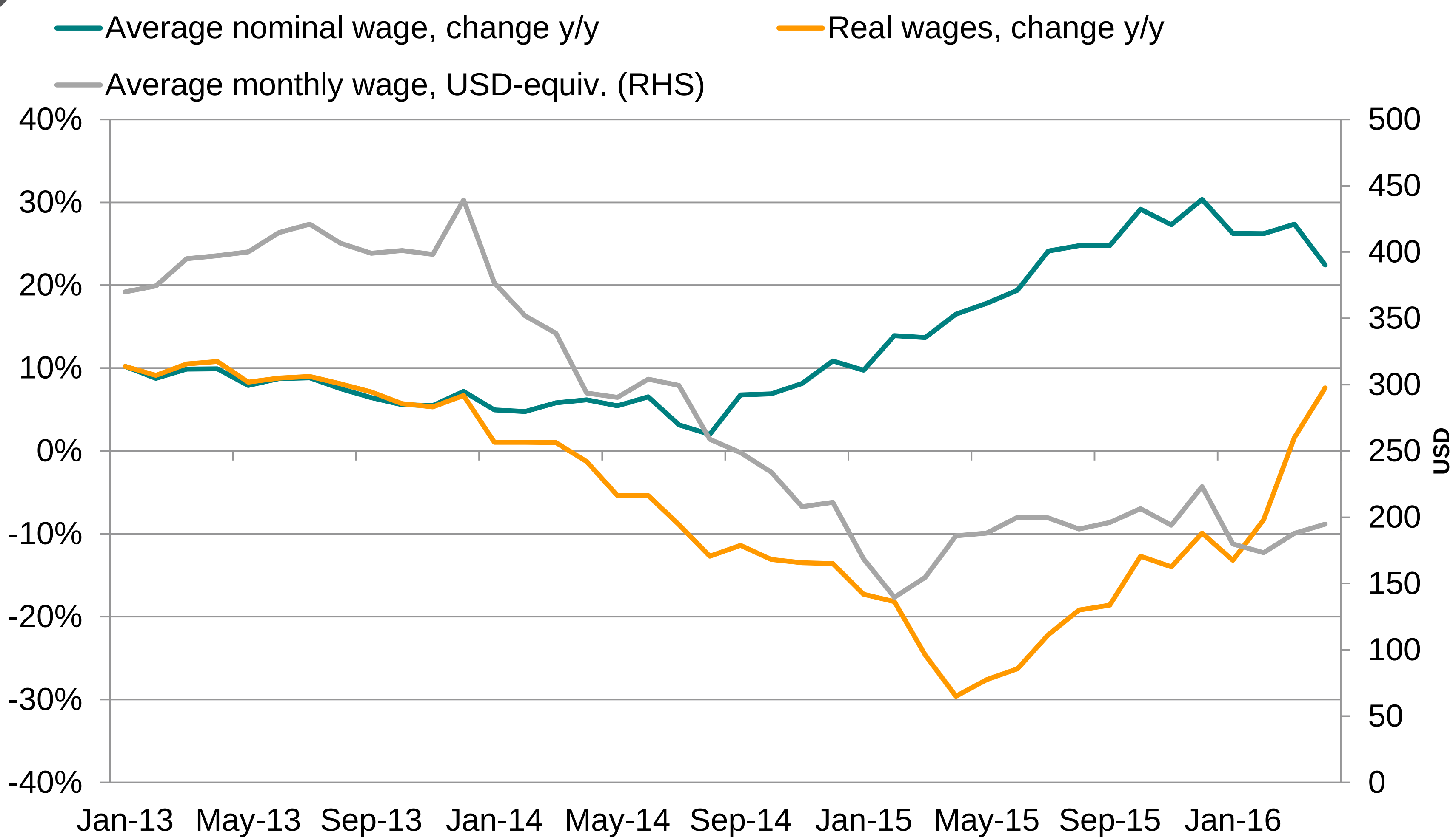


Steel rally: impact on growth and export revenues



* Output volumes x Export price

Recovery in real wages is set to continue



Economic growth: analyzing expenditure approach
GDP = C+ I + G + NX

			Estimated shares in GDP (based on 2015 GDP data)
C	↑	Nominal wages continue to catch up with <u>past</u> inflation Real wages are growing due to lower <u>current</u> inflation Dollar wages are at very low base and will increase Increase in social transfers limited by cap on fiscal deficit Ongoing adjustment of gas/utility tariffs weighs on disposable income	**68%**
I	↑	Reversal of private capital flows (abundant liquidity and zero interest rates in the world, more political certainty) Privatization? Stabilization of local currency and in the banking sector	**19%**
G	=	Ongoing military spending spurs economic activity Budget revenues are decelerating with inflation Ukraine is not able to utilize all available international programs (WB) Sizable amount of subsidies to compensate gas tariff increase Structural problem with pension fund (no pension reform) Less transfers from the central bank (no money printing)	**15%**
NX	=	Positive terms of trade shock (soft commodities and metals are performing better than oil&gas) Ongoing rebalancing of current account (geographical+structural) Increased consumption rates to stabilize / increase imports High interest rates on external liabilities	**- 2%**

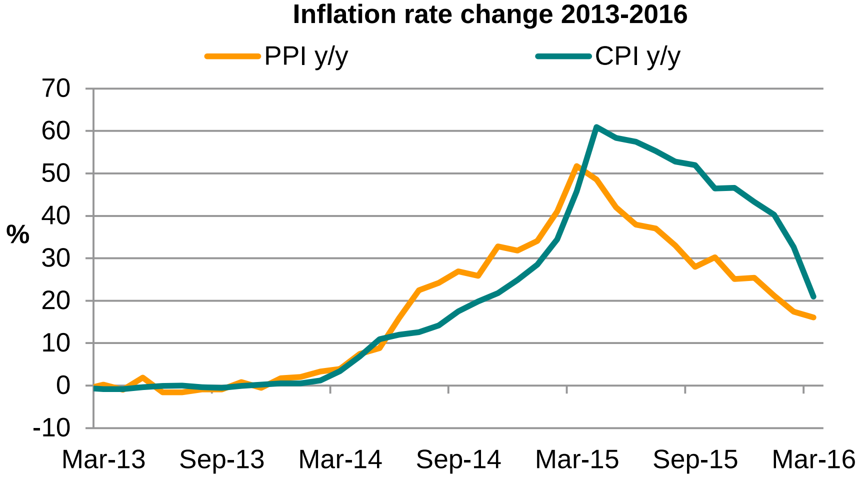
Large swings in inflation are behind us

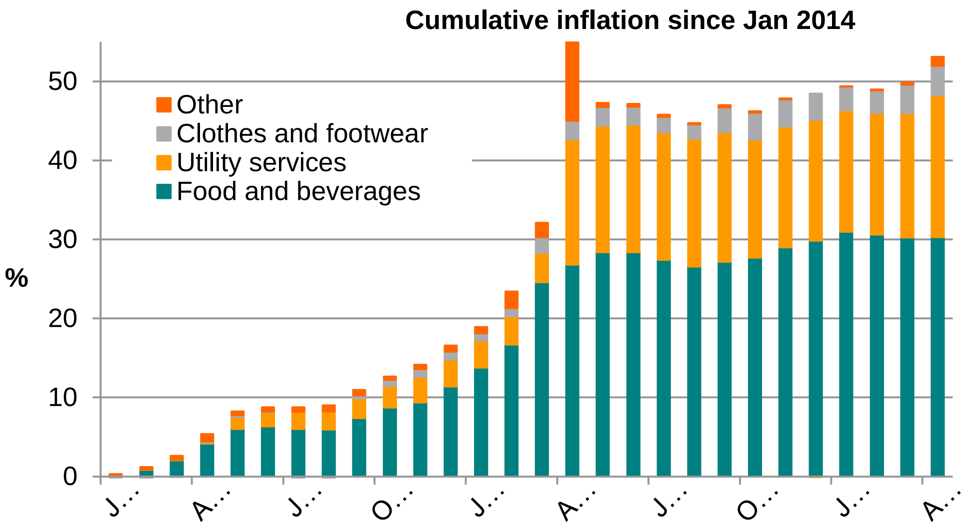
Inflation rate collapsed from its peak of +60% y/y in 2015 to +9.8% y/y as of April 2016.

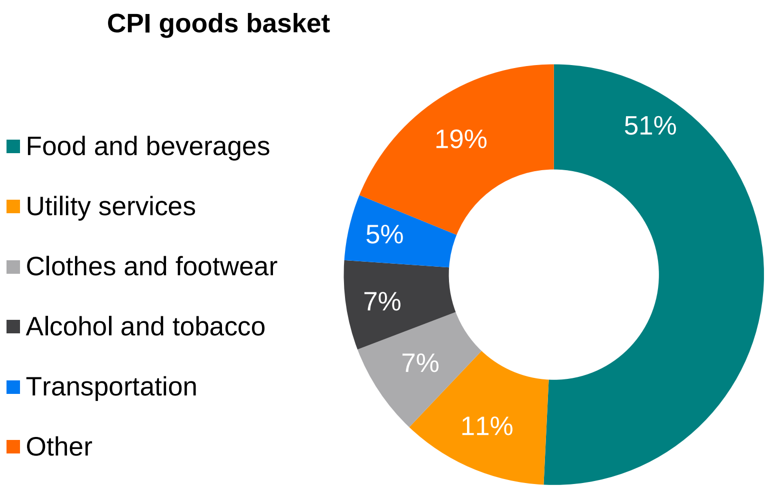
Disinflation was underpinned by subdued domestic consumer demand, tight monetary policy, and appreciation of the UAH exchange rate observed in recent months.

Albeit we expect some re-acceleration of inflation in 2H2016, the NBU is likely to meet its inflation targets for 2016 and 2017. Consumer inflation targets were set at 12% +/-3% and 8% +/-2%, respectively.

Administered utility prices are expected to be an important contributor to the CPI in 2016, but less so in 2017.







Balance of payments and foreign reserves

Despite the USD 468 bn surplus in BoP in April 2016, Ukraine remains heavily dependent on international financial aid.

The current account demonstrated a USD 327 mn surplus in April 2016, for the first time since December 2015. Going forward, we expect balanced current account for 2016.

Private sector outflows slowed to zero against backdrop of improved external conditions.

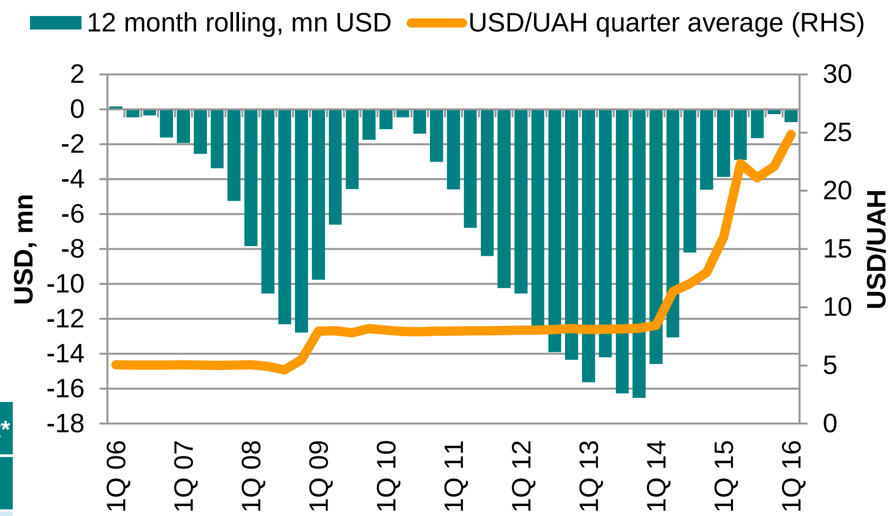
Ukraine is very likely to complete its pending IMF review in July, unlocking up to USD 2.5 bn in bi- and multi-lateral lending along with the next USD 1.0..1.7 bn disbursement from the IMF.

EFF program structure

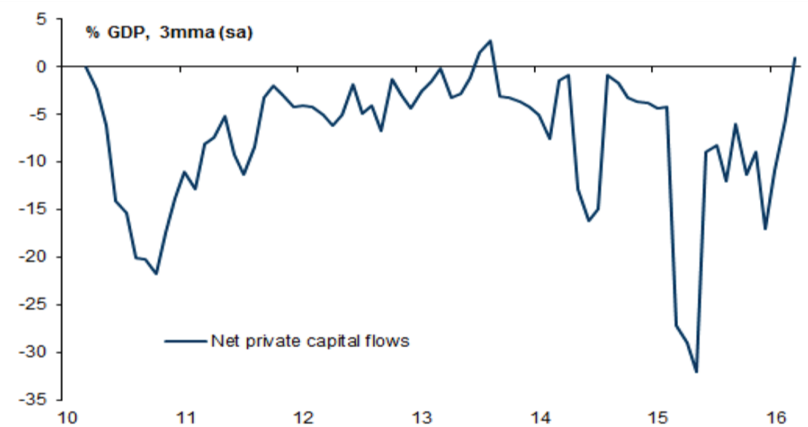
Tranche #	Review to get started on:	Monthly	Cumulative	Tranche status	**New request***
		USD mn	USD mn		USD mn
1	11-Mar-15	4 861	4 861	Disbursed	
2	15-Jun-15	1 621	**6 482**	Disbursed	
3	15-Sep-15	1 649	8 131	Missed	
4	15-Dec-15	1 649	9 780	Missed	
5	15-Mar-16	611	10 391	Missed	
6	15-Jun-16	611	11 002		1 669
7	15-Sep-16	611	11 613		1 345
8	15-Dec-16	611	12 224		1 345
9	15-Mar-17	611	12 835		1 345
10	15-Jun-17	611	13 447		1 345
11	15-Sep-17	611	14 058		618
12	15-Dec-17	611	14 669		618
13	15-Mar-18	611	15 280		618
14	15-Jun-18	611	15 891		618
15	15-Sep-18	611	16 502		618
16	15-Dec-18	611	17 113		618

** According to local media*

Current account



Private capital outflows, % GDP



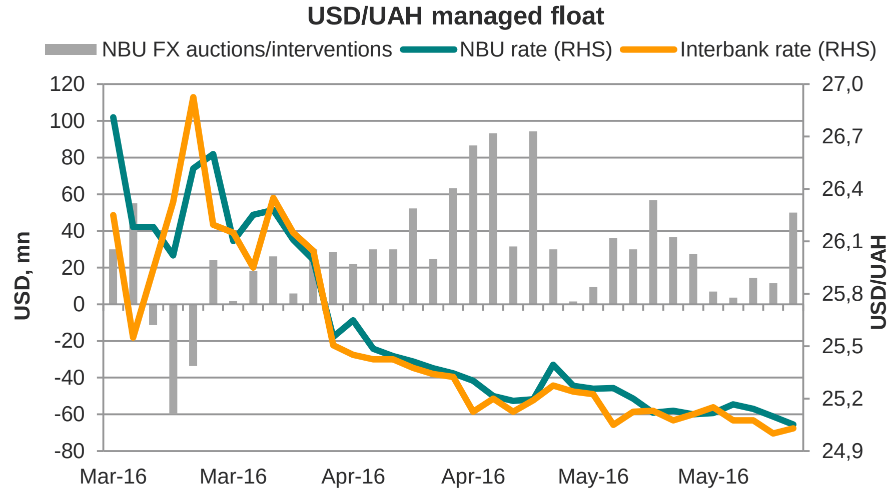
UAH: asymmetric managed float

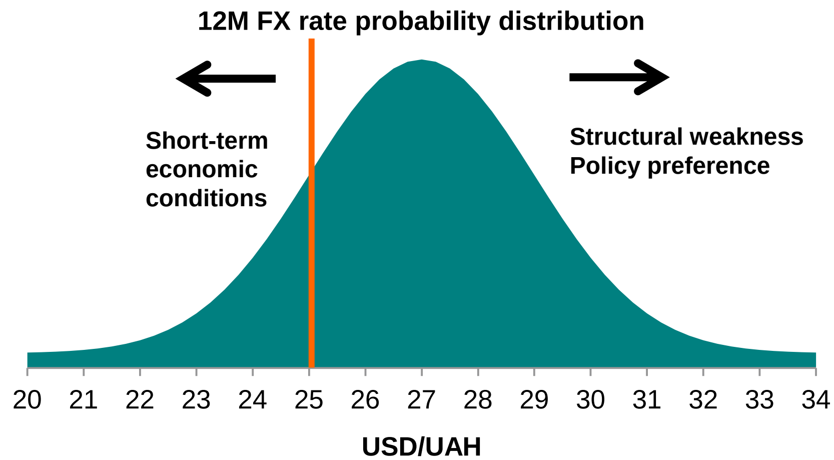
The NBU de-facto operates a managed float currency regime with capital/currency controls, asymmetrically limiting upside to the currency and even (arguably) **with a policy preference for a weaker currency**.

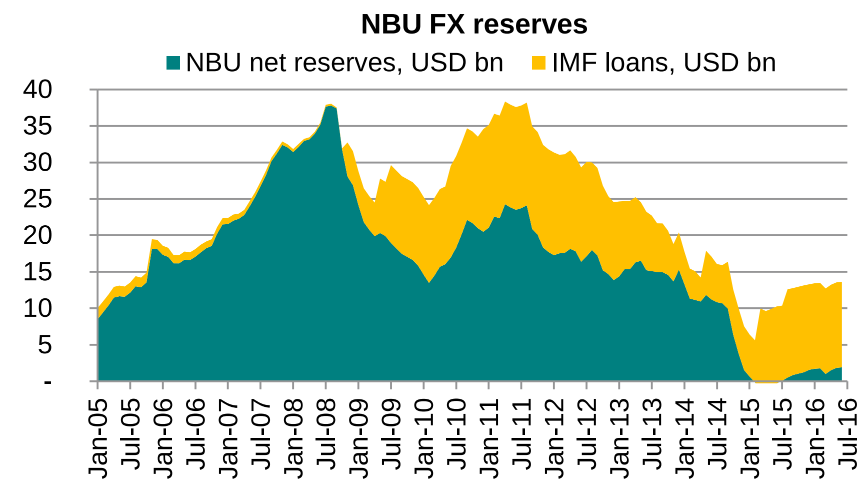
A bias towards weaker currency is dictated by low level of net international reserves (gross reserves less IMF loans). Ukraine has missed end 2015 targets on both net and gross reserves (USD 2 bn and USD18.3 bn).

While slippage on gross reserves target can be explained by delay in IMF financing, **Ukraine will do its best to deliver on end-June 2016 target on net FX reserves (USD 2.5 bn).**

Simultaneously, capital and currency controls are being gradually lifted, to reflect FX liberalization commitment and to support weaker UAH on levels that would allow NBU to continue accumulating reserves.







Monetary policy: more cuts ahead

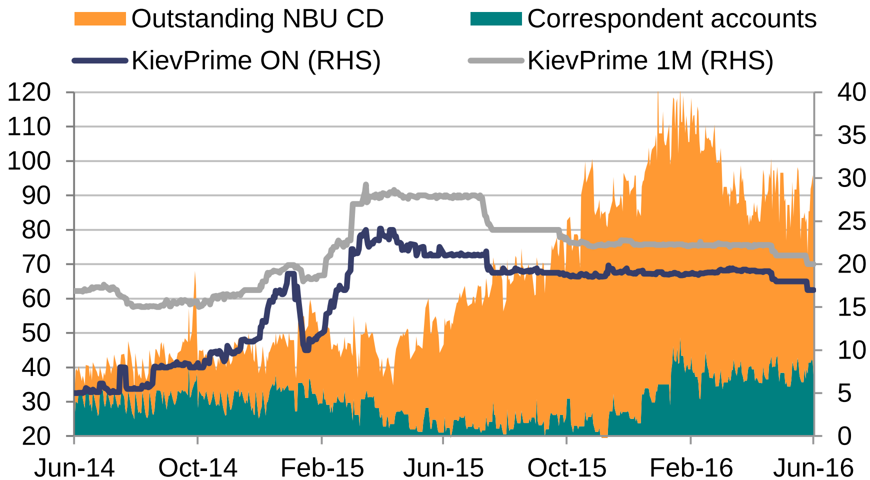
The NBU cut the key interest rate to 18% effective May 27, the first cut in more than 6 months.

Banking sector is structurally overliquid. In this situation NBU implemented new monetary policy design, in which key policy rate equals rate on 2W certificate of deposit.

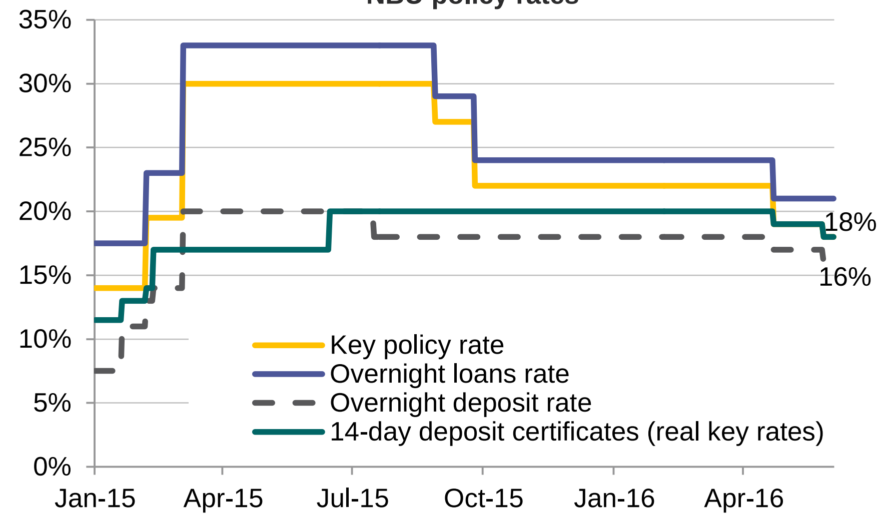
In the end of the year we expect the NBU interest rate target to be in range of 14-16%, which is approximately 2% higher than our projected inflation rate (and 4% higher than the NBU target).

We expect the next substantial policy move from the NBU, most likely a key rate cut of several percentage points, to be made in July 2016, following the IMF disbursement. Before that time the central bank, while clearly aiming for easing of the regulations, may lack the ground necessary to carry out the policy changes.

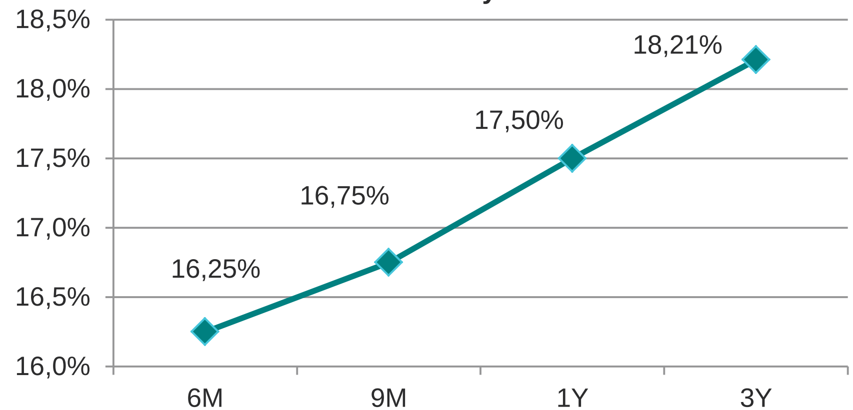
Banking sector liquidity



NBU policy rates



Government bonds yield curve



THANK YOU FOR YOUR ATTENTION!

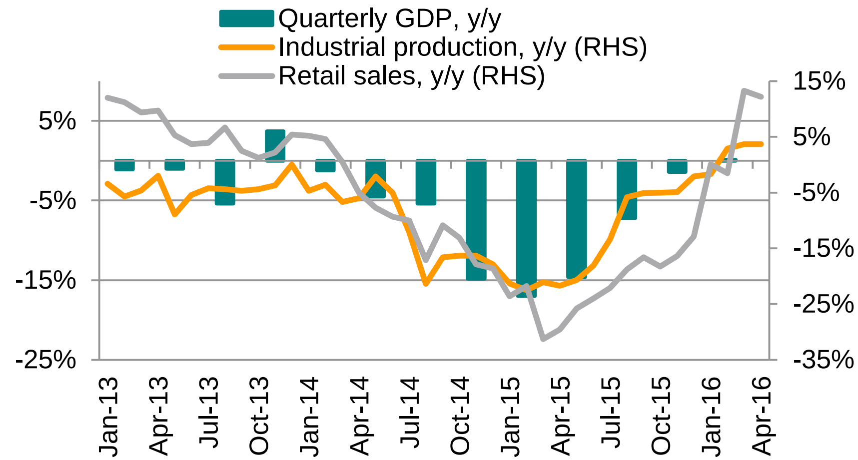
Will economy escape the L-shape recovery?

In 1Q 2016 the economy grew by 0.1%, which is consistent with L-shape recovery scenario (+1.2% GDP growth in 2016). Based on forward-looking indicators we may well expect the acceleration in growth in Q2-Q3, since both domestic consumption and the export led industry are recovering.

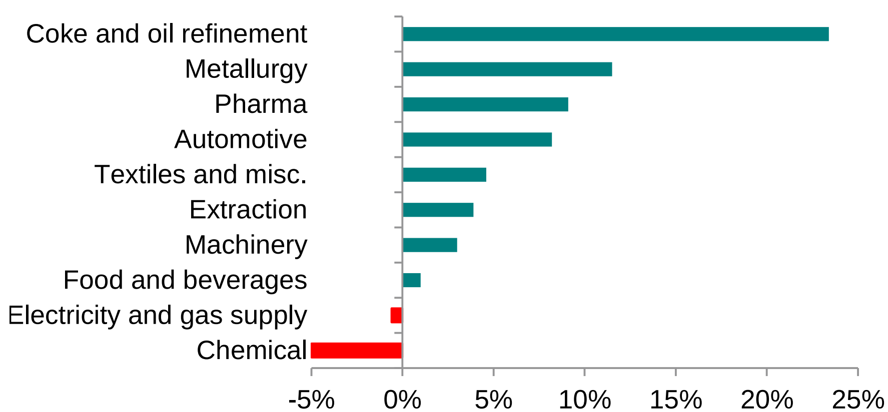
In April 2016 Industrial production index increased by 4% y/y, with a particular growth detected in heavy industries coupled with acceleration of fixed investment over the last 6 months.

Retail sales index grew by 12.2% y/y in April 2016 underpinned by contracting inflation and rally wages. Although we expect retail sales growth to decelerate in 2H2016, coupled with good industrial production results they are likely to generate **upside risks to our GDP growth forecast.**

GDP growth



Production of key industries in Jan-Apr, change y/y



Investment