



Economic growth forecasts in Ukraine: 2020 and 2021



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“The Great Lockdown”, referring to the period in which COVID-19 containment measures were put in place worldwide, has had a significant toll on the global economy. In the specific case of Ukraine, even though the country entered the crisis in better macroeconomic condition than in previous global crisis in 2008¹, its economy is still expected to be hit hard. In this issue, we provide an overview of the impacts of the ongoing pandemic on the Ukrainian economy that are already visible and try to supply an economic forecast for the country for the remainder of 2020 and for 2021, looking at the performance of each economic sector in the process.

Overall, in the first half of 2020, Ukraine’s GDP amounted to UAH 1.71 trln (USD 68.43 bln²) in current prices. On March 12th, Ukraine started imposing lockdown measures to mitigate the effects of the COVID-19 pandemic. The first signs of the impacts of the lockdown can be traced back to the Q1 of 2020 in which GDP decreased by 1.3% compared to Q1 of 2019. In Q2, Ukrainian GDP experienced a more pronounced drop of 11.4%, its biggest quarterly drop since 2015³. Looking in particular at expenditure, exports decreased by 9% in the first half of 2020 (13% in Q2 alone) and imports dipped by 18% (27% in Q2), compared to the corresponding period of 2019.

Among the economic sectors that contracted the most during the lockdown in Q2 of 2020 were “accommodation and food service activities”, “agriculture, forestry and fishing,” and “transportation and storage.” Production in these sectors for the second quarter of 2020 decreased by 46%, 31% and 16% respectively, compared to the same period of 2019⁴. On the other hand, the three following sectors grew in the second quarter of 2020 compared to the corresponding period of the previous year: “public administration and defense; compulsory social security” (17%), “information and communication” (15%), and “human health and social work activities” (15%).

Table 1: Real GDP growth forecasts in Ukraine

Month(2020)	Organization	2020	2021
April	Government of Ukraine, MDETA ⁵	-4.8%	4.6%
April	National Bank of Ukraine	-5.0%	4.3%
April	International Monetary Fund	-7.7%	3.6%
April	Consensus forecast ⁶	-4.2%	2.4%
May	EBRD	-4.5%	5.0%
June	World Bank	-3.5%	3.0%
July	National Bank of Ukraine	-6.0%	4.0%
June	Kyiv School of Economics	-5.3%	4.4%
July	Government of Ukraine, Budget draft 2021	-4.8%	4.6%
July	Consensus forecast ⁶	-6.0%	3.2%
September	Standard&Poor’s	-6.0%	4.0%
September	EBRD	-5.5%	3.0%
October	World Bank	-5.5%	1.5%
October	International Monetary Fund	-7.2%	3.0%

Since April 2020, a number of national and international organizations issued real GDP growth forecasts for Ukraine for 2020 and 2021. These forecasts are summarized in table 1. It is worth noting that the forecasts are quite volatile, ranging from -7.7% to -3.5% for 2020, and from 1.5% to 5% for 2021. The average growth rates for the selected forecasts are -5.5% for 2020 and 3.5% for 2021.

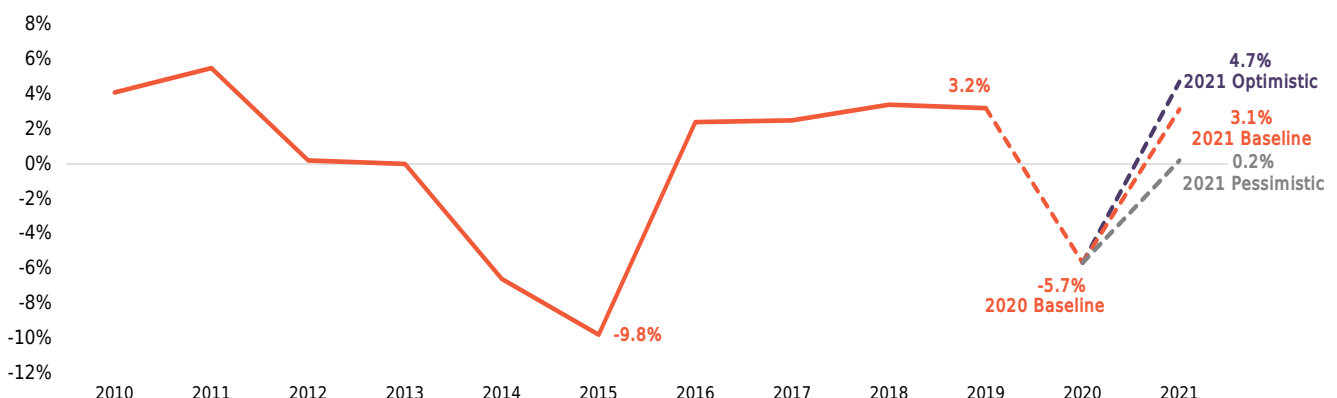
PMC RC Ukraine has made forecasts for the country’s economic development for 2020 and 2021. To do so, we developed various scenarios of economic development, which depended on the epidemiologic situation both in the country itself and globally. Each scenario differed with respect to the severity of pandemic-related constraints on the economy.

For 2020, PMC RC Ukraine has developed a baseline scenario and an optimistic scenario. The rationale behind constructing two scenarios for the end of the current year is the high level of uncertainty regarding the impact of the virus spread in the remaining months of the year. In the 2020 baseline scenario, the economy is expected to shrink by **5.7%**, compared to 2019. The scenario assumes a second wave of the pandemic which will have a sizable impact on the economy. An optimistic scenario assumes fewer contractions in the economy and, as a result, the Ukrainian economy would shrink by **3.8%** in 2020.

Due to the recent resurgence of COVID-19 cases in Europe, including Ukraine, the baseline scenario is more likely to play out, thus, the forecasts for 2021 are built on the baseline scenario of 2020.

For 2021, we have developed three different scenarios: optimistic, baseline, and pessimistic. The scenarios differ with respect to the nature of the economic shock. The optimistic scenario assumes that the 2020 shock was temporary, while the baseline scenario assumes that it was partially permanent, and the pessimistic scenario assumes there will be a partial continuation of the current crisis for some of 2021. According to the 2021 baseline scenario, the Ukrainian economy is forecast to grow by **3.1%** compared to the baseline of 2020. In the optimistic scenario, the Ukrainian economy is expected to grow by **4.7%** in 2021, while in the pessimistic scenario, Ukraine’s GDP is forecast to increase by **0.2%** in 2021.

Real GDP Growth in 2020 and 2021 by Scenarios

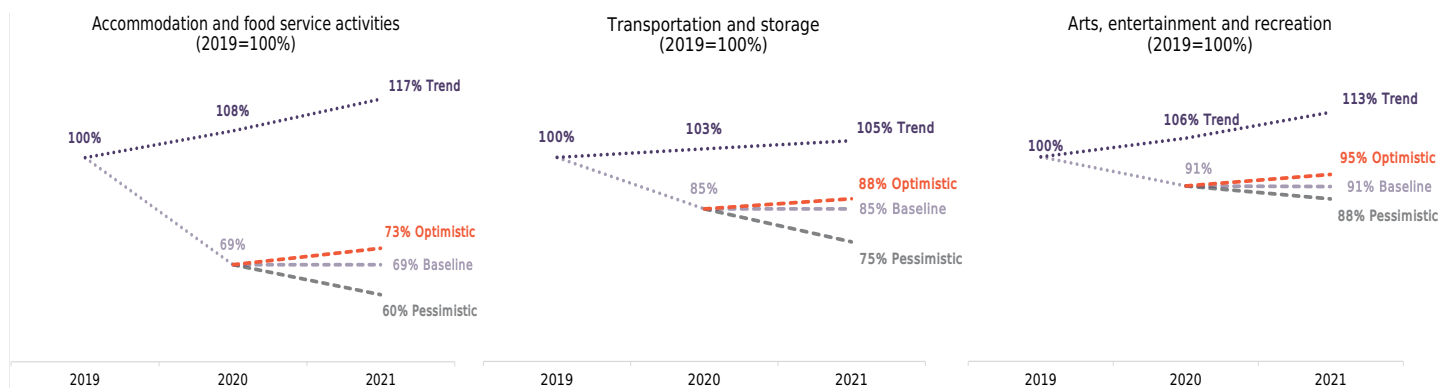


Source: State Statistical Service of Ukraine; PMC RC Ukraine’s calculations.

GDP forecasts by sectors

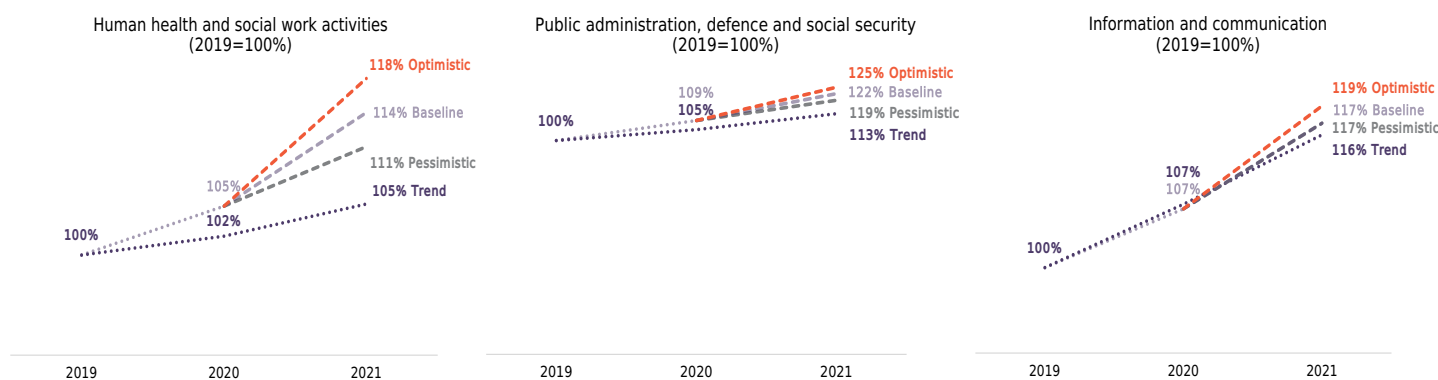
Based on the estimated scenarios for 2020 and 2021 we have identified sectors that are likely to be most and least affected. We have compared our forecasts to the performance of each sector in 2019. In addition to our forecasts, the following graphs also contain trend values⁷, which are the values of GDP in each selected sector for 2020 and 2021 without the pandemic-related shock compared to GDP of 2019 in the sector.

The most negatively affected economic sector is forecast to be “accommodation and food service activities” with the sector’s respective GDP in 2020 falling to 69% of the 2019 level, followed by a stunted recovery in the 2021 baseline scenario. The same pattern applies to “transportation and storage,” as its GDP is set to fall to 85% of the 2019 level, followed by minimal recovery in 2021. Given the nature of the current shock, other service-related sectors, such as “arts, entertainment and recreation”, “other services”, “administrative and support service activities” and “financial and insurance activities” are also expected to decline significantly in 2020 compared to 2019 levels, with little to no recovery in 2021. Three other sectors set to perform worse in 2020 and 2021, compared to 2019, are “agriculture, forestry and fishing,” “manufacturing,” and “mining and quarrying.”



Source: State Statistical Service of Ukraine; PMC RC Ukraine’s calculations.

Some economic sectors, on the other hand, have benefited from the crisis and are estimated to report quicker growth than they did prior to the crisis. We assume that such sectors will perform better in 2021 under the pessimistic scenario, and worse under the optimistic scenario, as a prolonged period of health crisis could lead to these sectors recording better results. In particular, “human health and social work activities” and “public administration, defence and social security” are two such sectors. They are set to achieve 105% and 109% growth compared to 2019 levels according to the 2020 baseline scenario, respectively, and 114% and 122% growth compared to 2019 levels under the 2021 baseline scenario, respectively. Meanwhile, “information and communication” is another sector in which high growth is expected, however the growth in this sector was already strong before the pandemic hit, thus there is no sizable difference between the trend and our forecasts for this sector. Two other sectors set to improve upon their 2016-2019 results in 2020 and 2021 are “electricity, gas, steam and air conditioning supply” and “education.”



Source: State Statistical Service of Ukraine; PMC RC Ukraine’s calculations.

Elsewhere, some sectors are set to maintain growth in 2020 and 2021, but are still expected to perform poorer than they had done in 2016-2019. Specifically, these sectors include: “wholesale and retail trade”, “real estate activities”, “water supply; sewerage and waste management” and “construction”.

Conclusion

In summary, while the Ukrainian economy is forecast to shrink by 5.7% in 2020, if the shock is temporary, then the economy will rebound by 4.7% in 2021. However, under the scenario in which the shock transpires to be of a partially permanent nature (the baseline scenario), GDP growth will amount to 3.1% in 2021. If the shock is of a more permanent nature (i.e. under the pessimistic scenario), the economy is set to increase by 0.2% in 2021.

Looking at the structure of Ukraine’s GDP, on the one hand there are several sectors of the economy which have been heavily impacted by the severe lockdown measures. These sectors are mainly tourism-related or contact-intensive. On the other hand, some sectors actually benefited from the lockdown measures and have grown during this period. Our projections suggest that these patterns are going to change the structure of Ukrainian economy in the short term, however, it is too early to tell whether these patterns will persist in the medium and long term.

¹ The World Bank Group: “COVID-19 and Human Capital” ² The average exchange rate over the first half of 2020; source: National Bank of Ukraine, 2020

³ In terms of 2016 constant prices ⁴ Compared to the prices of the previous year ⁵ Ministry of Development of Economy, Trade and Agriculture

⁶ Consensus forecast is a forecast made by a group of independent external experts. The forecast is made under MDETA

⁷ The estimates for performance in 2020 and 2021 without the shock are based on 2016-2019 trend.

Basic Economic Indicators	2016	2017	2018	2019	2020 Q1	2020 Q2
Nominal GDP (bln hryvnia)	2 385	2 984	3 561	3 975	846	868
GDP per Capita (USD, PPP)	11 148	11 871	12 629	13 341	-	-
GDP Real Growth (%)	2.4%	2.5%	3.4%	3.2%	-1.3%	-11.4%
Yearly inflation (%)	13.9%	14.4%	10.9%	7.9%	2.9%	2.4%
Exchange rate (hryvnia/USD)	25.6	26.6	27.2	25.9	25.0	26.9
FDI (BOP net inflows) (bln USD)	3.8	3.7	4.5	5.9	-1.5	1.3
Unemployment Rate (%)	9.7%	9.9%	9.1%	8.6%	8.5%	9.8%
Gross external Debt (bln USD)	112.5	115.5	114.7	121.7	120.3	122.8

* preliminary data