



UKRAINE

Economic growth forecasts in Ukraine: 2022

Economic Outlook and Indicators



Research

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In 2020, the COVID-19 pandemic and corresponding containment measures saw global economic growth hit harder than at any point in nearly a century. The economy of Ukraine was no exception in this regard. According to the forecasts of PMC RC Ukraine made in November 2020, the Ukrainian economy was predicted to shrink by 5.7% according to the 2020 baseline scenario, and by 3.8% under the optimistic scenario. With fewer contractions and with fiscal and monetary policies adopted, the economic downturn for Ukraine in 2020 was 4.0%, which was closer to the optimistic forecast (3.8%) made by PMC RC Ukraine.

Nearly two years since the outbreak of COVID-19, the spread of the virus itself, vaccination rates, and new variants, continue to shape the speed and strength of economic recovery. In the case of Ukraine, geopolitical and domestic political tensions are also important variables to have been hindering economic growth. In this issue, we provide an overview of the ongoing economic recovery in Ukraine and try to supply an economic forecast for the country for 2022, looking at the performance of each economic sector in the process.

Overall, in the first three quarters of 2021, Ukraine’s GDP increased by 2.2% compared to the same period of 2020. While the real economy declined by 2.2% year-on-year in the first quarter of 2021 due to prolonged lockdown measures, it experienced pronounced growth in the second quarter. Specifically, real GDP increased by 5.7% in Q2 of 2021 compared to Q2 of 2020 and continued to grow in the third quarter when it increased by 2.7% compared to the corresponding period of the previous year.

Among the economic sectors to have experienced the highest growth in the second and third quarters of 2021 compared to 2020 and 2019 were “financial and insurance activities,” “information and communication,” “real estate activities,” and “construction.” Even though the sector of “accommodation and food service activities” recorded the highest growth in Q2 of 2021 compared to Q2 2020 (35%) and continued to grow in Q3 (9.7%), it remained considerably lower compared to the levels of 2019 (Q2 2021 was lower than Q2 2019 by 43.6%, and Q3 2021 was lower than Q3 2019 by 14.8%). Other sectors that were still relatively far from recovering to 2019 levels in Q3 2021 included “professional, scientific and technical activities,” “administrative and support service activities” and “transportation and storage.” GDP in these sectors for the third quarter of 2021 dropped by 10.2%, 10.1%, and 9.2% respectively, compared to the same period of 2019.

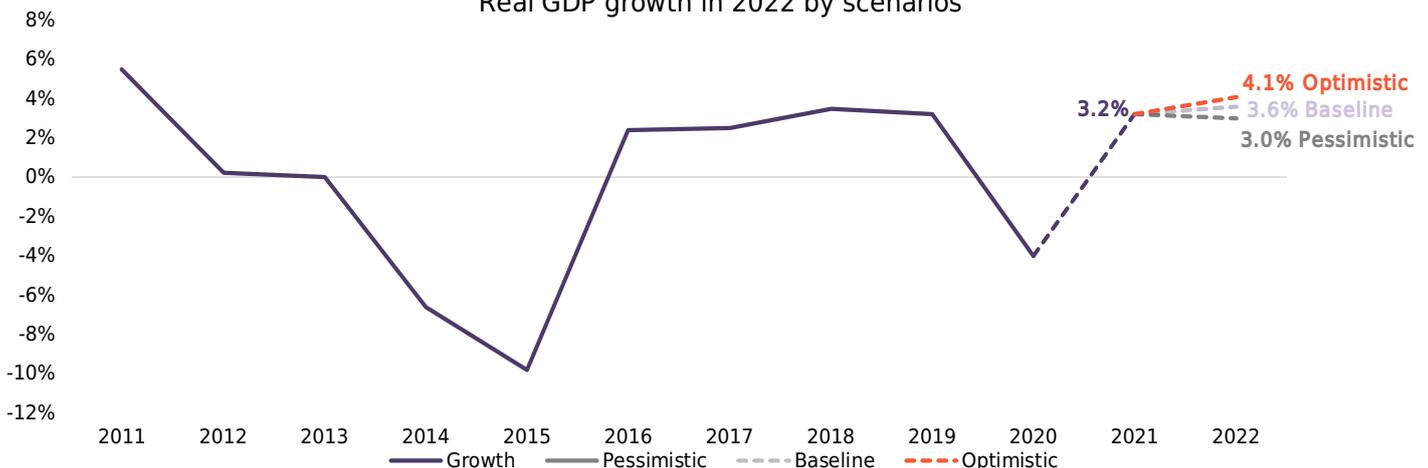
Since April 2021, a number of national and international organizations have issued real GDP growth forecasts for Ukraine for 2021 and 2022. These forecasts, which are summarized in table 1, ranged from 3.1% to 4.7% for 2021, and from 2.7% to 3.8% for 2022. The average growth rates for the selected forecasts were 3.7% for 2021 and 3.4% for 2022.

| Month (2021) | Organization | 2021 | 2022 |
|--------------|--|------|------|
| March | Standard&Poor's | 4.0% | 3.8% |
| April | Kyiv School of Economics | 4.7% | 2.7% |
| June | World Bank | 3.8% | 3.1% |
| June | EBRD | 3.5% | 3.5% |
| October | National Bank of Ukraine | 3.1% | 3.8% |
| November | IMF | 3.2% | 3.6% |
| December | Government of Ukraine, "Consensus forecast" ¹ | 3.4% | 3.6% |

PMC RC Ukraine has also made forecasts for the country’s economic growth for 2022. To do so, we took as given the latest forecast of the IMF (updated in November) for the remainder of 2021 - which stood at 3.2% (it should be noted that 3.2% was close to the forecast of PMC RC Ukraine made one year earlier in November of 2020 - 3.1%). Based on this, we developed three possible scenarios (optimistic, baseline, and pessimistic) for economic growth in 2022. Each scenario differed with respect to the speed and strength of economic recovery from the COVID-19 crisis, reflecting continuing risks to a sustained economic recovery posed by slow vaccination rates and new variants of the virus.

Based on the growth rates recorded by the given sectors in 2021 and their trend values², representing the values of GDP in each sector for 2022 which would have occurred without any pandemic-related shock in 2020, the baseline scenario assumes that most of the sectors will return to their trend. In the optimistic and pessimistic scenarios, some selected sectors are assumed to have higher or lower growth than in the baseline scenario accordingly. The given sectors were selected based on their sensitivity to risk factors and by looking at the growth rates for sectors in the second quarter of 2021, compared to the same periods of 2019 and 2020.

Real GDP growth in 2022 by scenarios



Source: State statistics service of Ukraine, PMC RC Ukraine’s calculations

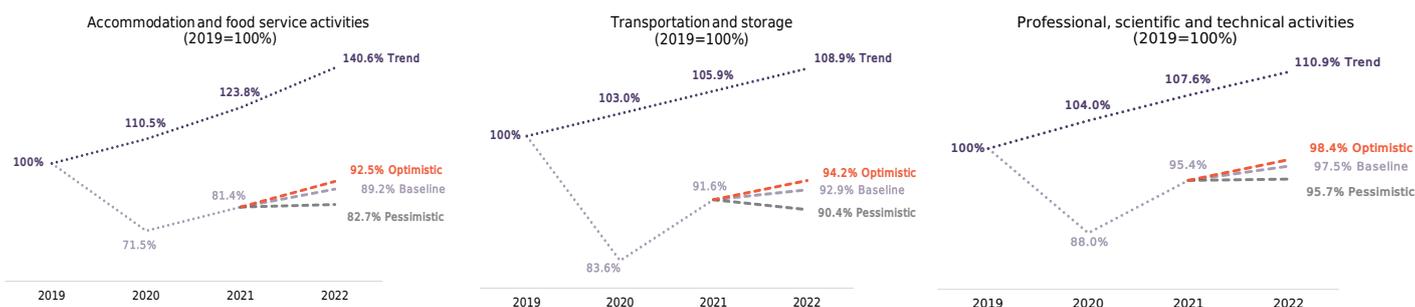
According to the 2022 baseline scenario, the Ukrainian economy is forecast to grow by **3.6%** compared to the baseline of 2021. In the optimistic scenario, the Ukrainian economy is expected to grow by **4.1%** in 2021, while in the pessimistic scenario, Ukraine's GDP is forecast to increase by **3.0%** in 2021.

GDP forecasts by sector

From the estimated scenarios for 2022, we have identified some sectors in which particularly interesting trends and forecasts of recovery were observed. Moreover, we have compared our forecasts to the performance of each sector in 2019 to see whether sectors have recovered to their pre-pandemic levels. In addition to our forecasts, the following graphs also contain the trend values of GDP in 2020, 2021, and 2022, compared to 2019.

In 2021, the “accommodation & food service activities” sector is estimated to have recovered least from the pandemic crisis, reaching 81.4% of its 2019 level. In 2022, this sector is forecast to remain below 2019 levels even in the optimistic scenario with GDP at 92.5% of the 2019 level.

Another service-related sector, namely “transportation and storage,” has also been heavily affected by the crisis and is estimated to have not fully recovered to its pre-pandemic value in 2021, remaining at 91.6% of its 2019 level. In the optimistic scenario for 2022, this sector is forecast to reach 94.2% of its 2019 level. Compared to those two sectors heavily affected by the crisis, the sector of “professional, scientific and technical activities” is forecast to experience stronger recovery, returning to 95.4% of its 2019 level in 2021, and 97.5% in 2022 according to the baseline scenario.

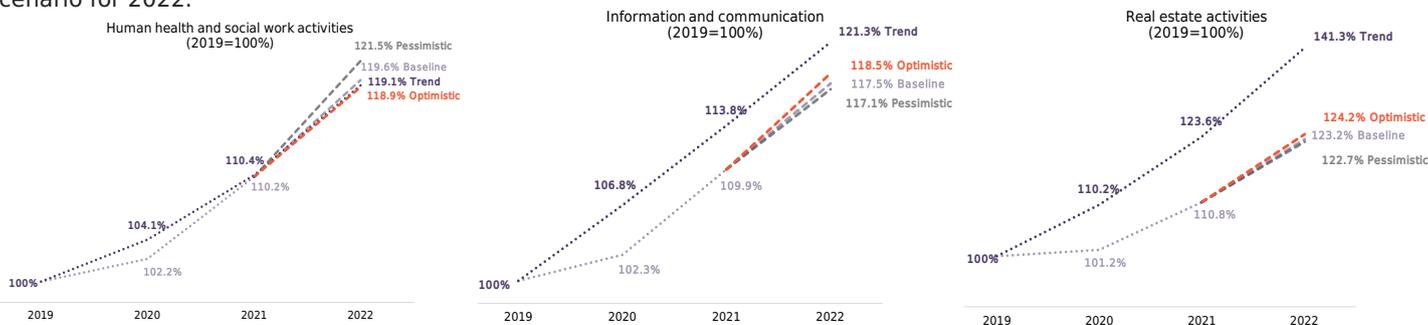


Source: State statistics service of Ukraine, PMC RC Ukraine's calculations

Due to the nature of the 2020 shock, the sector of “human health and social work activities” actually benefited from the crisis and in 2022 it is estimated to grow more quickly than it did prior to the crisis. While in 2021, the sector is estimated to have grown to 110.2% of its 2019 level, in the 2022 baseline scenario, the growth of this sector is forecast to be higher (119.6%) than its trend value (119.1%). Exceptionally for this sector the pessimistic scenario of 2022 (reaching 121.5% of its 2019 level) would entail higher growth than in the optimistic scenario (118.9%).

Elsewhere, the “information and communication” sector continued to grow despite the pandemic, reaching 109.9% of its 2019 level in 2021. Even in the optimistic scenario, in 2022 we forecast this sector to reach 18.5 percentage points higher than in 2019.

Finally, it should be noted that the “real estate activities” sector was observed to have recorded high growth in the first nine months of 2021 and was thus estimated to reach 110.8% of its 2019 level in 2021, and 123.2% of its 2019 level in the baseline scenario for 2022.



Source: State statistics service of Ukraine, PMC RC Ukraine's calculations

Conclusion

In summary, while the Ukrainian economy is expected to grow by 3.2% in 2021 if the economic recovery is sufficiently fast and strong (i.e. in the baseline scenario), with high vaccination rates and better controlled waves of new COVID-19 cases, the economy is forecast to continue to grow by 3.6% in 2022. Under the optimistic scenario in which the pandemic comes under even more control with the lowest influence on the economy, GDP growth is predicted to reach 4.1% in 2022. However, if the population does not get vaccinated at the desired rate and the number of COVID-19 cases increases (the pessimistic scenario), the economy is projected to increase by only 3.0% in 2022.

¹ Consensus forecast is a forecast made by a group of independent external experts. The forecast is made under MDETA.
² The estimates for performance in 2020 and 2021 without the shock are based on 2016-2019 trend.

| Basic Economic Indicators | 2018 | 2019 | 2020 | 2021 Q1 | 2021 Q2 | 2021 Q3 |
|---------------------------------|--------|--------|--------|---------|---------|---------|
| Nominal GDP (bln hryvnia) | 3,561 | 3,975 | 4,194 | 1,009 | 1,169 | 1,148 |
| GDP per Capita (USD, PPP) | 12,629 | 13,341 | 13,057 | - | - | - |
| GDP Real Growth (%) | 3.4% | 3.2% | -4.0% | -2.2% | 5.7% | 2.7% |
| Yearly inflation (%) | 10.9% | 7.9% | 2.7% | 7.4% | 8.1% | 10.5% |
| Exchange rate (hryvnia/USD) | 27.3 | 25.7 | 27.2 | 28.0 | 27.6 | 26.9 |
| FDI (BOP net inflows) (bln USD) | 4.5 | 5.9 | -0.9 | -0.9 | 1.3 | 2.5 |
| Unemployment Rate (%) | 9.1% | 8.6% | 9.5% | 10.5% | 9.3% | 9.2% |
| Gross external Debt (bln USD) | 114.7 | 121.7 | 125.7 | 123.1 | 125.2 | 125.0 |