In 2020, the macro effects of the pandemic were felt by virtually every country worldwide. At the same time, Ukraine's steel and iron ore industries fared better than expected, led by Metinvest, whose global reach enabled it to benefit from the recovery in export markets later in the year.

Showing resilience

CAUGHT IN CONTAGION

COVID-19 impacted economies worldwide in 2020, and Ukraine was no exception. Lockdowns introduced to contain the virus hit the service sector hard and interrupted supply chains. Compared with 2019, the country's industrial output decreased by 4.5%[5], gross fixed investments by 24.4%[5] and the grain harvest by 13.6%[5]. Overall, real GDP contracted by 4.0% year-on-year in 2020.

At the same time, as the economy experienced no major structural disruptions, the easing of pandemic restrictions spurred a recovery. While real GDP contracted by 11.2% year-on-year in the second quarter of 2020, it edged down by just 0.5% in the fourth quarter.

In the reporting period, the consumer price index (CPI) totalled 2.7% year-on-year, well below the target of 4-6% set by the National Bank of Ukraine (NBU). The low inflationary pressure allowed the NBU to continue the monetary easing begun in 2019. By the end of 2020, it had gradually slashed the key interest rate to 6.0%, down from 13.5% a year earlier.

Meanwhile, the national currency weakened enough to erase its unprecedented gains of the previous year. The average hryvnia rate against the US dollar fell by 4.1% year-on-year to 26.96, compared with 25.85 in 2019. The hryvnia depreciation also helped to drive the ratio of debt to GDP to 61%[6], despite a relatively moderate increase in overall national debt.

Ukraine remains highly dependent on receiving international financial support to manage its sizeable budget deficit, which was nearly 5.4%[6] in 2020, as well as to meet scheduled debt repayments. While interest in hryvnia-denominated government bonds remained low for most of 2020, driving net outflows of US$1.9 billion[7] from March to November, it began to recover at the year-end.

The cooperation with the IMF is viewed as an important source of liquidity and a driver of positive change in the country. In 2020, a new 18-month, US$5.0 billion programme was approved mid-year, of which US$2.1 billion was drawn down immediately. The remaining US$2.9 billion was delayed amid uncertainties about future policies. Ukraine is working with the IMF on numerous issues, and its short-term funding needs are moderate.

Overall, according to the Ministry of Finance of Ukraine, the government's net borrowings during the reporting period totalled US$1.1 billion from the domestic market and US$4.8 billion from external ones. Amid prudent monetary policy and debt management, the NBU's international reserves increased by 15.1% year-on-year to US$29.1 billion as of the year-end, the highest in nearly a decade.

Ukraine's sovereign credit ratings from the international agencies Fitch and S&P remained unchanged in 2020, both at 'B' with a 'stable' outlook. Moody's upgraded its sovereign rating to 'B3' with a 'stable' outlook, and raised its country ceiling to 'B2'.

5 State Statistics Service of Ukraine.
6 Ministry of Finance of Ukraine, State Statistics Service of Ukraine.
7 NBU.

SOME BRIGHT SPOTS

In 2020, Ukraine's steel and iron ore industries fared better than had been expected amid the pandemic.

In the reporting period, the country's apparent steel consumption fell by 2.3% year-on-year to 5.3 million tonnes, driven mainly by declines of 17.6% in machinery output, 10.5% in pipe production and 16.5% in residential construction. Meanwhile, national steel output fell moderately – by 1.1% year-on-year – to 20.6 million tonnes, as the traditionally export-oriented steel industry quickly reacted to the global recovery later in the year. Consequently, overseas shipments of rolled steel products, excluding pipes, rose by 3.0% to 14.6 million tonnes, according to Metal Expert.

In 2020, Metinvest increased crude steel production at its Mariupol steelmakers by 9.1% year-on-year to 8.3 million tonnes, as it also swiftly responded to a recovery in export demand thanks to its global sales network.

According to Group estimates based on UEX data, in the reporting period, Ukraine's merchant iron ore product output climbed by 4.6% year-on-year to 75.5 million tonnes, while merchant iron ore product consumption rose by 3.1% to 32.3 million tonnes given greater hot metal output. Amid this, Metinvest's sales of iron ore products in the country increased by 19.4% in volume terms. Ukraine's exports of iron ore products climbed by 10.9% to 45.3 million tonnes.

In 2020, Ukraine's coking coal production rose by 10.3% year-on-year to 7.0 million tonnes. Driving this was a 23.2% increase in raw coal output at Pokrovske Coal, which Metinvest consolidated in March 2021, after the reporting period. This helped to further reduce the share of coking coal imports in domestic consumption to 73%, down two percentage points.

The Group's revenues in Ukraine declined by 7% year-on-year to US$2,939 million in 2020. The country's share in Metinvest's top line edged down by one percentage point to 28%.

OUTLOOK FOR 2021

The outlook for Ukrainian steelmakers in 2021 will greatly depend on global economic trends. The limited availability of vaccines in Ukraine could act as a drag on the national economy and mean that the risk of new lockdowns remains. Meanwhile, ongoing restrictions on foreign travel will keep consumer spending focused more on domestic goods and services.

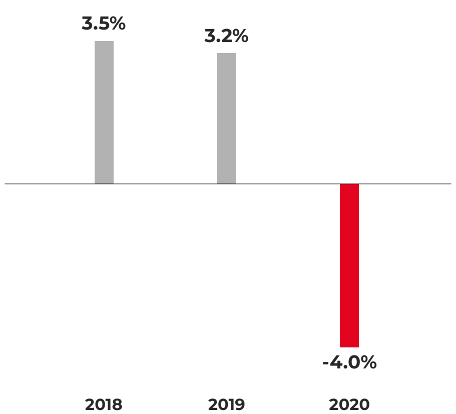
Probable inflationary pressure could trigger a substantial hike in the key interest rate, particularly if the hryvnia does not appreciate enough to prevent the regulator from tightening monetary policy.

While the moderate immediate budget needs can be funded from the government's large liquidity reserves, the deficit is currently expected to remain sizeable. As such, Ukraine needs to meet the IMF's requirements to receive the remaining tranches under that programme. These should also be supplemented with financing from the EU and World Bank.

8 For CPI, the year-on-year change is for the relevant month.

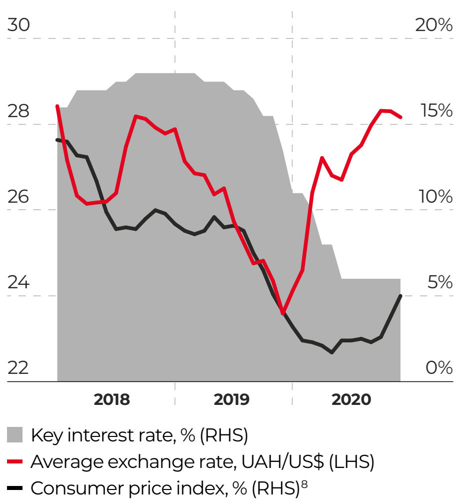
9 All indexes represent the cumulative index from the beginning of the respective year, year-on-year change.

Real GDP dynamics



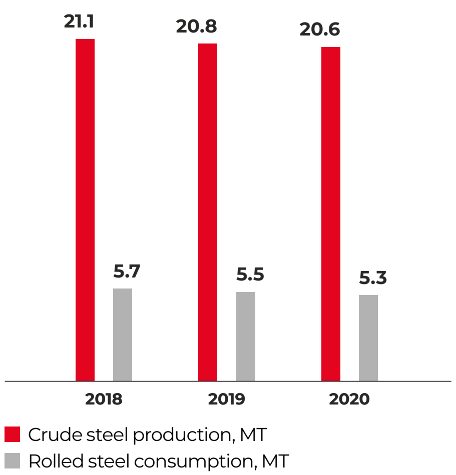
Source: State Statistics Service of Ukraine

Monetary policy



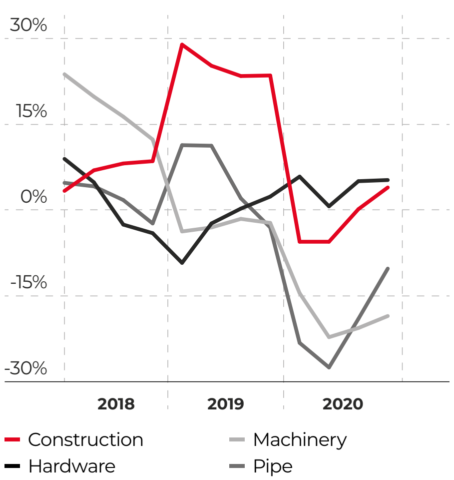
Monthly data points
Source: State Statistics Service of Ukraine, NBU

Steel industry in Ukraine



Source: World Steel Association, Metal Expert

Key steel consuming sectors[9]



Monthly data points
Source: State Statistics Service of Ukraine, Metal Expert