National Bank of Ukraine

Balance of payments in Q2 2021[1]
(according to the *Balance of Payments and International investment position* manual, 6th edition)

The current account moved into surplus in Q2 2021 of USD 0.2 billion, reaching 0.5% of GDP[2] (in Q2 2020 surplus totaled USD 2.0 billion, 6.1% of GDP). On current account transactions excluding reinvested earnings, the surplus narrowed to USD 2.0 billion, or 4.6% of GDP, comparing to USD 3.0 billion or 9.4% GDP in Q2 2020.

External trade in goods and services surplus narrowed compared to previous year (USD 0.8 billion or 2.5% of GDP) and **totaled USD 0.5 billion (1.3% of GDP).**

Both **merchandise exports and imports** increased substantially 52.1% and 46.6%[3] respectively (decreased by 12.1% and 27.8% respectively in Q2 2020). Compared to Q1 2021 exports rose by 19.9% and imports by 6.2%.

Exports of goods totaled USD 15.0 billion and resulted mainly from growth both *in mineral (including ore)* 2.2 times and *metallurgical exports* 1.9 amid a surge in global prices. Moreover, exports increased:

food exports	– by 21.8%;
timber and wood products	– 1.6 times;
chemical exports	– by 40.1%;
machinery and equipment exports	– by 28.0%;
manufactured products	– 1.6 times.

Regarding geographical breakdown, in nominal terms, exports of goods to EU and Asian countries showed the most significant growth – by USD 2.4 billion, or 79.7% yoy and by USD 1.5 billion, or 37.0% yoy respectively. EU countries' share in total exports of goods increased to 36.2% (from 30.6%), although Asian countries' contribution fell from 41.6% to 37.4%. In turn, exports of goods to Americas grew by USD 302 million or 78.6% along with its share – to 4.6% (from 3.9% in Q2 2020). Exports of goods to Russia increased by USD 173 million, or 31.5%, meanwhile the share shrank from 5.6% to 4.8%.

Imports of goods equaled USD 15.3 billion. Both energy (48.9%) and non-energy (46.0%) imports rose significantly due to last year's low comparison base. In turn, energy imports decreased by 7.4% while non-energy imports grew by 9.3% comparing to Q1 2021.

Non-energy imports increased by all main goods categories:

machinery and equipment imports	– by 52.9%;
chemicals	– by 46.0%;

[1] The Autonomous Republic of Crimea and the city of Sevastopol, and temporarily occupied territories in the Donetsk and Luhansk regions are excluded from the data

[2]

[3] All percentage changes are given in comparison with the indicators of the corresponding period of the previous year, unless otherwise indicated.

food products	– by 27.4%;
metallurgical imports	– by 48.6%;
manufactured products	– by 43.1%;
timber and wood products	– 1.7 times.

As for geographical breakdown, in nominal terms, imports of goods from EU and Asia demonstrated the largest growth – by USD 2.0 billion, or 49.9% and by USD 1.1 billion, or 38.8% respectively. Asian countries share in total imports of goods decreased to 26.7% from 28.2% in Q2 last year, whilst EU countries' share rose by 0.8 p.p. to 39.8%. Imports from Russia increased by USD 296 million, or 31.2%, and its share dropped from 9.1% to 8.2%. Meanwhile, imports from other CIS countries grew by USD 724 million (or 1.9 times) likewise the contribution rose from 7.9% to 10.2%.

The surplus of trade in services amounted to USD 0.8 billion (in Q2 2020 – USD 1.4 billion) resulted from higher rates of imports growth (1.7 times) comparing to exports (by 24.9%). Outbound tourism and short-term migrants' expenditures (2.3 times) and imports of transport services (1.6 times, air and sea in particular) grew the most. Charges for the use of intellectual property (2.6 times), computer services imports (by 37.0%) and other business services (by 30.5%) also saw growth during the period. Exports of services increase was propelled by computer services (by 38.5%), other business services (by 29.3%, legal and advertising in particular) and inbound tourism expenditures (9.1 times) growth In turn, manufacturing services on physical inputs owned by others evidenced an increase (by 31.4%) during the period. Transportation services exports were flat comparing to Q2 2020 (declined by only 3%).

Primary income balance deficit totaled USD 1.4 billion (compared to surplus of USD 0.2 billion in Q2 2020) amid paid out dividends growth (5.1 times) and reinvested earnings (by 65.2%). This was driven by further improvement of direct investment enterprises financial results, in particular in mining and metallurgical industry. Meanwhile, repayments on portfolio (by 4.3%) and other (by 28.5%) investment saw a decline. Receipts on compensation of employees increased by 29.8% compared to Q2 2020.

Secondary income balance surplus widened to USD 1.1 billion (USD 0.9 billion in Q2 2020).

The volume of inward private remittances increased by 28.2% compared to Q2 last year and amounted to USD 3.5 billion. The easing quarantine restrictions and gradual opening of borders contributed to the growth of remittances through informal channels (by 50.9%). The volume of remittances received through official channels grew by 15.8%.

Net lending to the rest of the world (the total of current account and capital account balance) **accounted for USD 228 million in Q2 2021** (USD 2.0 billion in Q2 2020).

The financial account net inflows totaled USD 1.0 billion in Q2 2021 (compared to outflows of USD 0.7 billion in Q2 2020) and was generated by public sector operations. Whereas **private sector net outflows** (including errors and omissions) equaled **USD 0.8 billion** (net inflows in Q2 2020 were USD 0.5 billion).

The net inflows to the public sector totaled **USD 1.9 billion** and mainly resulted from net receipts on Eurobonds placement (USD 1.25 billion), disbursements of loans from international partners (USD 0.4 billion) and net purchase of government debt securities by non-residents (USD 0.2 billion).

The net inflows of foreign direct investments totaled USD 1.34 billion (in Q2 2020 they were USD 1.25 billion). Inflows were mainly generated by reinvestment of earnings (equaled USD 1.7 billion compared to USD 1.1 billion in Q2 2020). Investment in equity (excluding reinvestment of earnings) increased by 16.6% and added up to USD 218 million. Net repayments on intercompany lending totaled USD 256 million compared to net disbursements of USD 38 million in Q2 2020.

The net increase of the banking system's external position on portfolio and other investments totaled **USD 973 million** (net decrease totaled USD 386 million in Q2 2020) and caused by these factors:

USD 1.1 billion net increase of the external position on "currency and deposits" item;

USD 34 million repayments on Eurobonds.

Meanwhile, net sale of non-residents' securities stood at USD 116 million.

The net increase of real sector external position (excluding foreign direct investment) equaled **USD 1.6 billion** (USD 1.2 billion in Q2 2020) owing to these competing factors:

USD 1.6 billion decrease of net external liabilities on trade credit (increase in Q2 2020 – USD 270 million);

USD 607 million increase in the amount of foreign cash outside banks (in Q2 2020 – USD 1.4 billion);

USD 114 million net decrease in loans external liabilities (net increase in Q2 2020– USD 166 million);

USD 688 million net Eurobonds placement.

The overall balance of payments recorded surplus that remained at last year's level of **USD 1.3 billion.**

The international reserves stood at USD 28.4 billion as of the end of Q2 2021, covering 4.0 months of future imports.