

The World Bank in Ukraine Country Snapshot



An overview of the World Bank's work in Ukraine

October 2019

UKRAINE	2018
Population, million	42.5
GDP, current US\$ billion	129.9
GDP per capita, current US\$	3,056
School Enrollment, primary (% gross) (2015)	103.9
Life Expectancy at birth, years (2015)	71.2

At a Glance

- GDP growth was solid at 3.5 percent in the first half of 2019 due to a good harvest and growth in consumption that was supported by remittances, consumer lending, and social transfers during the elections.
- At the same time, investment remained weak due to structural bottlenecks and high interest rates.
- Ukraine faces macroeconomic vulnerabilities stemming from current expenditure pressures and from the formidable financing that will be needed to repay public debt in 2019–21.
- The growth outlook depends on whether the new Government can deliver on its ambitious reform agenda and mobilize adequate financing.

Country Context

Ukraine has experienced acute political, security, and economic challenges during the past five years. Since the “Maidan” uprising in February 2014, the country has witnessed several momentous events, including the outbreak of conflict in eastern Ukraine and the annexation of Crimea. From 2014 until early 2019, the Government undertook key reforms, including: carrying out significant fiscal consolidation, moving to a flexible exchange rate, reforming energy tariffs and social assistance, enhancing the transparency of public procurement, simplifying business regulations, stabilizing and restructuring the banking sector, moving forward on health and pension reforms, and establishing anti-corruption agencies.

At the same time, people became disillusioned by the lack of meaningful progress in some of the very areas that brought them out into the streets in 2014. Lack of trust in public institutions was the most fundamental. Corruption remained endemic—from the financial sector to health care—and powerful oligarchs still dominated and “captured” the economy.

Current President Volodymyr Zelenskyy was elected on April 21, 2019, in a runoff election with former President Petro Poroshenko, winning 73 percent of the vote. Immediately after his inauguration, Zelenskyy dissolved the parliament and called for snap elections. On July 21, President Zelenskyy’s Servant of the People Party won the parliamentary elections, yielding 60 percent of the seats in the Rada, and formed a government. The resulting Government, which took office in August 2019, has committed to an ambitious and wide-ranging reform agenda.

The World Bank and Ukraine

Ukraine joined the World Bank in 1992. Over the 27 years of cooperation, the Bank's commitments to the country have totaled close to US\$12 billion in about 70 projects and programs.

In March 2014, after receiving a request from the Ukrainian Government, the World Bank Group (WBG) announced its support for a reform agenda aiming to put the Ukrainian economy on a path to sustainability.

The current International Bank for Reconstruction and Development (IBRD) portfolio consists of eight investment operations of roughly US\$2.3 billion and one Program for Results of US\$200 million.

The World Bank and the authorities are implementing a Country Partnership Framework (CPF) for Ukraine for FY2017–21 that supports the country's efforts to achieve a lasting economic recovery benefiting the entire population.

The ongoing CPF focuses on ensuring that markets work more effectively, establishing the necessary conditions for fiscal and financial stability, and improving service delivery for all Ukrainians.

Key Engagement

Responding to the crisis in Ukraine, in March 2014, the WBG announced that it would provide additional financial and technical support to the country.

Since then, the Bank has supported the people of Ukraine through two series of Development Policy Loans (DPLs), seven new investment operations, a Program for Results operation to support the agriculture sector, and two guarantees amounting in total to approximately US\$6 billion aimed at improving critical public services, supporting reforms, and bolstering the private sector.

WORLD BANK PORTFOLIO

No. of Projects: 8 IBRD investment operations, plus one PforR

Total Lending: \$2.32 billion, including \$148 million from the Clean Technology Fund (CTF)

Reform measures aided by the Bank's policy support operations have promoted good governance, transparency, and accountability in the public sector, as well as stability in the banking sector; a reduction in the cost of doing business; and the effective use of scarce public resources to provide quality public services at a crucial time.

These operations also support the authorities in continuing to reform an inefficient and inequitable housing subsidy system while protecting the poor from tariff increases by strengthening social assistance.

World Bank investment projects focus on improving basic public services, such as district heating, water and sanitation, health, and social protection, as well as public infrastructure, such as the power transmission networks and national roads.

The Bank is also supporting Ukraine through policy advice and technical assistance on formulating and implementing comprehensive structural reforms.

In addition to financing several ongoing private sector projects, the International Finance Corporation (IFC) is implementing a large advisory program in the country, working to simplify regulations, improve the investment climate and energy efficiency, boost the completeness of local food producers, help open new markets, and increase access to finance.

Recent Economic Developments

GDP grew by 3.5 percent in the first half of 2019 compared to 3.3 percent in 2018. The solid growth was driven by a strong agricultural harvest as well as sectors dependent on domestic demand, including services (domestic trade, transport, and the financial sector) and construction. Household consumption continued to grow rapidly in the first half of the year.

At the same time, manufacturing and investment growth remained weak, with a level of fixed investment (only 20 percent of GDP) that is insufficient for sustainable growth. Investment was limited by (i) low foreign direct investment of just 0.6 percent of fiscal year GDP in the first half of 2019, (ii) high interest rates and structural weaknesses in the financial sector (little progress has thus far been made in resolving nonperforming loans), and (iii) market distortions from the absence of an agricultural land market, an anticompetitive environment, and the large number of state-owned enterprises (SOEs).

Higher consumption helped reduce poverty. Real wages continued to grow in 2019 due to economic growth and persistent outward labor migration. As a result, poverty (consumption per capita below US\$5.5/day in 2011 purchasing power parity) declined to 3.5 percent in 2018 from 4.9 percent in 2017 and 6.4 percent in 2016.

Strong domestic demand, together with real exchange rate appreciation (by 13.2 percent in 2018), contributed to a pickup in imports and a widening of the current account deficit to 3.3 percent of GDP in 2018 (compared 1.9 percent in 2017). Remittances reached 9 percent of GDP in 2018. In the first half of 2019, Ukraine's terms of trade improved due to higher iron ore and wheat prices, with exports growing 6 percent year-on-year (y-o-y). Imports, however, continued to grow faster at 8.6 percent y-o-y, driven by intermediate goods.

The merchandise trade deficit grew by 13 percent y-o-y in the first half of 2019, but growth in the surplus of the services trade and primary incomes brought the current account deficit down to just US\$0.2 billion.

Economic Outlook

The growth outlook going forward depends critically on accelerating the reform momentum to address the bottlenecks in investment and productivity. Given the strong performance in the first half of 2019, growth is projected to remain at 3.3 percent this year. Going forward, if the new Government is able to deliver on its ambitious reform goals, growth could increase to 4 percent by 2021.

This will require progress in the following areas:

- (i) reviving sound bank lending to the enterprise sector by completing the reform of state-owned banks
- (ii) attracting private investment in the tradable sectors by establishing a transparent market for agricultural land, demonopolizing key sectors and strengthening antimonopoly policy and enforcement, privatizing SOEs, and tackling corruption; and
- (iii) safeguarding macroeconomic stability by addressing current expenditure pressures, securing adequate financing, further reducing inflation, and rebuilding international reserves.

If reforms do not progress and adequate financing is not mobilized, growth could fall below 2 percent as investor confidence deteriorates, macroeconomic vulnerabilities intensify, and financing difficulties force a compression in domestic demand.

Ukraine will need to safeguard macroeconomic stability and manage fiscal risks. The key to safeguarding fiscal sustainability going forward is to address the current expenditure pressures and keep the fiscal deficit below 2.5 percent of GDP to ensure a sustainable debt reduction.

This will require (i) avoiding any additional hikes in wages in education and health that are not linked to productivity growth in these sectors, (ii) resisting populist pressures to tinker with the newly established pension indexation, and (iii) further targeting social assistance programs.

Project Spotlight

The Conflict Response and Recovery Pilot and Capacity Building Project



The rehabilitation department is equipped with modern medical facilities and technology that was purchased with the help of the World Bank.

This project, with a total cost of US\$3.2 million in grant financing, aims to enhance recovery and peacebuilding in Ukraine by supporting the role and effectiveness of the Ministry for Veterans Affairs, Temporarily Occupied Territories and Internally Displaced Persons.

The project has a unique component for Ukraine, with pilot activities designed to

respond to the personal needs of internally displaced people (IDPs), former combatants, and host communities.

For example, in the city of Kamyanske, Dnipropetrovsk region, a rehabilitation department has been established in a community hospital where specially trained medical staff provide enhanced medical services, comprehensive rehabilitation, and psycho-social assistance to veterans and IDPs. The rehabilitation department is equipped with modern medical facilities and technology that was purchased with the help of the World Bank.

In the city of Kryvyi Rih, Dnipropetrovsk region, a professional partnership was formed between the Center for Psychological Assistance and Social Adaptation of Kryvyi Rih and the Institute of Economics of the Vadym Hetman Kyiv National Economic University.

Through this cooperative effort, a hub has been created that helps to provide vocational training, legal assistance, psychological rehabilitation, and social adaptation to people who have been affected by conflict.

A series of cultural events and workshops have also been arranged. During the ongoing trainings, a special focus is being made to support people with disabilities.

The project is currently being implemented in 10 cities and could be scaled-up and become a pillar for a national program on peacebuilding and recovery.

CONTACTS

Kyiv,
(380 44) 490-6671
1, Dniprovskiy Uzviz,
2nd Floor,
Kyiv 01010, Ukraine.

More about the World Bank in Ukraine

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<http://www.worldbank.org/ukraine>

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