UKRAINE

Table 1	2022
Population, million	43.5
GDP, current US$ billion	155.4
GDP per capita, current US$	3568.5
Upper middle-income poverty rate ($6.85)[a]	7.1
Gini index[a]	25.6
School enrollment, primary (% gross)[b]	99.0
Life expectancy at birth, years[b]	69.6
Total GHG emissions (mtCO2e)	153.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2017 PPPs.
b/ WDI for School enrollment (2014); Life expectancy (2021).

Despite Russia's invasion, Ukraine's economy is showing signs of a modest recovery, aided by more reliable electricity supply, and underpinned by the steady receipt of external assistance that has upheld public demand. GDP is now expected to grow by 3.5 percent in 2023. Poverty is projected to remain elevated. Economic risks are rising, and Ukraine will continue to depend on assistance from its international partners in the medium term.

Key conditions and challenges

After contracting by 29.1 percent in 2022 Ukraine's economy has benefited from improved electricity supply, a localization of active fighting, and more reliable receipt of external assistance in H1 2023, which has allowed for a growth resumption. A low-base uptick of economic activity notwithstanding, Ukraine's economy remains fundamentally altered and operates as a war economy in which private demand is suppressed by contractionary monetary policy to finance, together with external assistance, a significant government deficit.

Ukraine's economy is in a fragile equilibrium in which policy must manage a triple imbalance. On the real side, high government expenditure generates substantial demand, which can only be met through the concurrent compression of private demand and the receipt of imports. This generates an external and fiscal imbalance, which, with the private sector suppressed, requires external resources to be financed. To date, Ukraine has managed these imbalances through assistance from its international partners, but pressure points are rising. For one, the discontinuation of the Black Sea Grain Initiative, unilaterally announced by Russia in July 2023, exerts downward pressure on Ukraine's main remaining exports. In addition, the reliance on external loans has generated a large external debt burden held by preferred creditors, which increases Ukraine's dependence on forex resources to meet debt service payments and complicates future debt treatment efforts. A reliance on deficit monetization in 2022 has increased the money supply and liquid savings in the banking sector, which poses inflation risks when efforts to compress demand end.

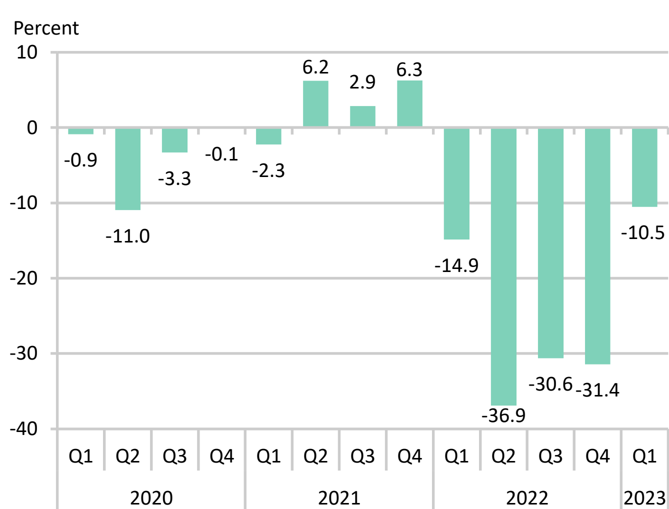
While Ukraine has continued to take reform steps during Russia's invasion, addressing institutional and structural constraints related to the rule of law, labor supply and competition will be critical to facilitate a sustainable recovery, as are reform efforts to accelerate Ukraine's EU accession. Ensuring continued delivery of key social services is important for livelihoods, especially among the poor and vulnerable already affected by the war.

Recent developments

Ukraine's GDP has started to recover, with growth turning positive in Q2 2023 for the first time since Russia's invasion. This was aided by public consumption and a modest supply recovery in sectors related to supporting the war economy and those benefiting from improved electricity supply.

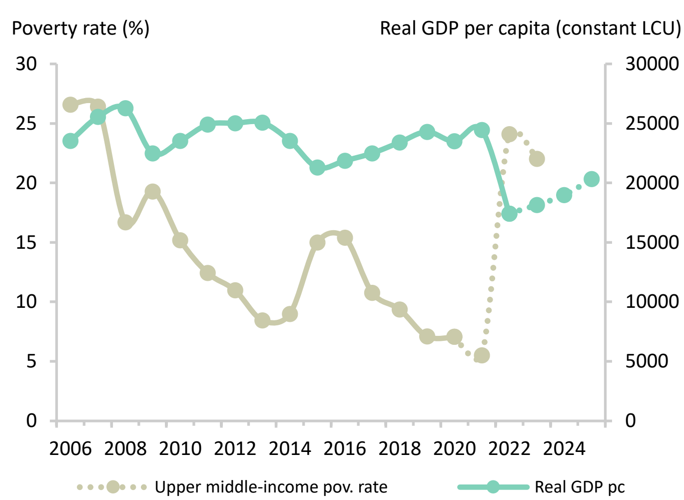
Inflation has also moderated, declining to 8.6 percent year-on-year at the end of August, led by food and transport prices, with restrictive monetary policy contributing to the decline. An increase of electricity tariffs from June has exerted upward pressure. Food and energy inflation especially hurt poor families because they spend a

FIGURE 1 Ukraine / Quarterly GDP growth, year-over-year



Source: Ukraine Statistics Office.

FIGURE 2 Ukraine / Actual and projected poverty rate and real GDP per capita



Source: World Bank. Notes: see Table 2.

larger budget share on these. Banks have remained profitable and stable, but risks are prevalent.

Ukraine's current account has turned into a USD 1.3 billion deficit in H1 2023, driven by high import growth and a further contraction in exports. The financial account has also turned negative as government liabilities more than doubled and new trade credits – an earlier source of outflows– disappeared. Reserves were aided by front-loaded external assistance and reached USD 40.4 billion by September 1.

Public expenditure grew by 67 percent year-on-year in H1 2023, whereas tax revenue increased by only 25 percent, due in large parts to continued subdued economic activity. Revenue was aided by receipts from non-budgetary institutions. Ukraine met its financing needs through domestic bank borrowing and external assistance but has not resorted to monetization in 2023.

Loss of private sector jobs and income, high inflation, and assets loss brought on by the war have reversed 15 years of poverty reduction. Based on the global line of US$6.85 a day (2017PPP), poverty is estimated to have increased from 5.5 percent to 24.1 percent in 2022, pushing 7.1 million more people into poverty. 6 million people are still displaced to neighboring countries, and another 5 million are displaced internally.

Outlook

Ukraine's economic outlook remains conditional on the assumed duration of Russia's invasion. Under an indicative scenario in which active hostilities continue until mid-2024, GDP is expected to expand by 3.5 percent in 2023 and 4 percent in 2024. Starting in late 2024, Ukraine's economy is expected to recover more rapidly under the baseline assumption, driven by public investment, as reconstruction and export activity pick up. Private consumption growth is projected to remain modest due to contractionary monetary policy needed to reign in post-war inflation. Inflation is projected to decline gradually to 7 percent by 2025. Many households continue to face difficult financial situations, and poverty is projected to remain elevated at 22 percent in 2023. This scenario is subject to significant downside risks related to a deterioration of the security situation and overall macroeconomic risks are exceptionally high.

The current account is expected to register a 3.8 percent of GDP deficit in 2023 which is projected to widen to 4.8 percent by 2025 under the baseline assumption, as imports increase during the reconstruction period whereas exports remain subdued. In the medium term, reserves are expected to continue benefiting from external assistance inflows and are projected to remain adequate by 2025.

The fiscal deficit is expected to remain high during the wartime before declining to 11.5 percent of GDP by 2025. Public and publicly guaranteed debt is projected to stabilize around 100 percent of GDP in the medium term.

TABLE 2 Ukraine / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-3.8	3.4	-29.1	3.5	4.0	6.5
Private consumption	1.7	6.9	-26.7	5.0	6.0	7.0
Government consumption	-0.7	0.8	18.0	5.0	-4.0	-6.5
Gross fixed capital investment	-21.0	9.1	-35.3	9.3	14.0	21.2
Exports, goods and services	-5.8	-8.6	-42.4	-10.0	15.0	30.0
Imports, goods and services	-6.4	14.2	-18.5	3.0	10.0	15.0
Real GDP growth, at constant factor prices	-3.8	3.5	-29.1	3.5	4.0	6.5
Agriculture	-11.5	14.4	-25.0	-15.0	-5.0	3.3
Industry	-4.5	1.1	-60.0	3.0	4.5	5.0
Services	-2.2	2.4	-20.3	6.8	5.2	7.1
Inflation (consumer price index)	5.0	10.0	26.6	11.0	10.0	7.0
Current account balance (% of GDP)	3.5	-1.9	4.9	-3.8	-4.5	-4.8
Net foreign direct investment inflow (% of GDP)	0.0	2.4	0.4	0.4	0.4	1.9
Fiscal Balance (% of GDP)[a]	-6.1	-4.0	-25.0	-27.6	-21.5	-11.5
Revenues (% of GDP)	41.0	36.3	41.0	38.6	39.0	39.9
Debt (% of GDP)	60.4	49.0	78.5	93.5	100.8	100.3
Primary Balance (% of GDP)[a]	-3.1	-0.4	-22.0	-23.4	-16.0	-7.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	7.1	5.5	24.1	22.0	..	..
GHG emissions growth (mtCO2e)	-3.8	1.7	-29.1	-5.7	-7.7	-5.1
Energy related GHG emissions (% of total)	77.8	78.1	74.3	75.5	75.1	74.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Fiscal Balance and Primary Balance are excluding grants in 2022-2023.
b/ Calculations based on ECAPOV harmonization, using 2020-HLCS.
c/ Projection using neutral distribution (2020) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU. 2022 estimate based on simulation reflecting economic contraction and poverty impacts of inflation. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.