UKRAINE

Table 1	2021
Population, million	42.2
GDP, current US$ billion	200.1
GDP per capita, current US$	4741,7
School enrollment, primary (% gross)[a]	99.0
Life expectancy at birth, years[a]	71.8
Total GHG Emissions (mtCO2e)	237.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2019).

The Russian invasion is taking a severe economic and humanitarian toll, reflected in fiscal financing pressures, disruptions to trade, the displacement of millions, and heavy infrastructure damage with potentially long-lasting macroeconomic and social repercussions. A 45 percent GDP contraction is anticipated in 2022 and a weak recovery thereafter. Depending on the war's duration, the share of the population living below the actual Subsistence Minimum may reach 70 percent in 2022.

Key conditions and challenges

Ukraine's economy had weathered the COVID-19 pandemic better than anticipated thanks to earlier reforms that strengthened macro-fiscal and financial fundamentals. Fiscal financing needs were managed through anchoring to the IFIs' financing programs and access to external markets. Although some reforms, including banking and SOEs, were incomplete and potential growth remained low due to demographic headwinds, low productivity and investment rates, the historic opening of agricultural land markets in mid-2021 held the promise of unleashing stronger growth in the agricultural sector that already contributed 40 percent of export earnings and one-fifth of GDP.

Following the Russian invasion on February 24, 2022, Ukraine has suffered a massive economic and humanitarian crisis. As of March 31, 4mn people had become refugees, and 6.5mn displaced internally. With food insecurity increasing, the Government banned the export of grains and other staples. To support the economy and ease pressures on FX reserves and banks, it imposed an emergency (including capital controls and banking sector restrictions) and announced tax deferrals, while fully meeting domestic and external debt obligations. These measures have helped to prevent a macro-fiscal and financial collapse during wartime.

Critical priorities in the near-term remain macroeconomic stability, provision of essential public services and humanitarian relief. Over the medium-term, the damage to productive and export capacity and loss of human capital are expected to have lasting economic and social repercussions. A major reconstruction effort will be necessary, complemented by institutional, structural and financial sector reforms to support private sector-led growth, but is contingent on substantial external financing on concessional terms (which will also aid fiscal sustainability). Absent this, the recovery would be even more protracted and likely to be characterized by continued hardship and migrant outflows.

Recent developments

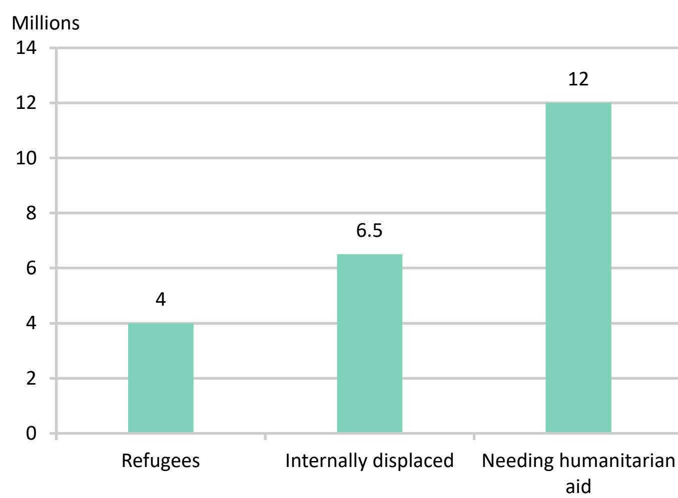
The economy expanded by 3.4 percent in 2021 as easing COVID restrictions supported domestic demand, and a bumper harvest offset d rags from higher global energy prices and a faster fiscal consolidation. The external position was relatively robust, with gross reserves at US$30.9 bn, and a small current account deficit of 1.1 percent of GDP. This recovery was upended by the onset of war in February 2022, which has fully disrupted maritime trade (this amounted to half of the total trade and 90 percent of grain trade), heavily damaged critical infrastructure and triggered a massive displacement of people.

Access to external capital markets remains closed, with Eurobond spreads peaking at

FIGURE 1 Ukraine / EMBI bond spreads

Source: Bloomberg. Latest data point from March 30, 2022.

FIGURE 2 Ukraine / Number of persons displaced and in need of humanitarian assistance



Source: UNOCHA and UNHCR. Latest data point from March 30, 2022.

over 50 percent in early March. A large fiscal financing gap has opened amid a rapidly widening fiscal deficit (due to growing spending needs and declining revenues) and large debt repayments. Tax revenues are expected to drop sharply due to the economic impacts of the war, as well as tax deferrals announced for key business, land and municipal taxes and the shift to a 2 percent turnover tax. In response, international partners have provided substantial funding through grants, loan guarantees, and currency swap lines alongside major financing packages by the IMF, EU, World Bank and some bilaterals. Bond spreads have since dropped 15 percentage points to just above 30 percent.

Compared to the 2014-15 crisis, the banking system is more resilient but faces heightened operational, liquidity and solvency risks. In addition to capital and exchange controls, the central bank has established a new liquidity facility and introduced regulatory forbearance measures to support financial stability. FX reserves stood at US$27.5 bn (3.8 months of current imports as of March 1). Inflation was stable at an average of 10 percent in the 8 months leading up to the war; regulated utilities prices and the introduction of price caps on essential consumer goods may restrain inflationary pressures in the short term.

Outlook

Projections, given the ongoing conflict, are subject to great uncertainty and large downside risks. In the baseline, assuming that war continues for several more months (albeit remains contained to the geographical areas where it is currently occurring), a 45 percent GDP contraction is anticipated in 2022. This is predicated on massive declines in imports and exports given trade disruptions, a collapse in public and private investments and a large drop in household spending reflecting the large displacements of people, loss of incomes and livelihoods. In coming years, a major reconstruction effort is expected to push growth to over 7 percent by 2025 amid a slow restoration of productive and export capacity and gradual return of refugees. Still, by 2025, GDP will be a third less than its pre-war level in 2021.

After a significant widening, the non-primary fiscal deficit is expected to narrow over the medium term as gradual fiscal consolidation and cuts to non-essential spending offset increased public investment. The CA should remain constrained by sizable domestic import compression in the near term but will widen in 2023 and 2024 due to reconstruction-related investment imports (amid domestic supply constraints).

The poverty and social impacts of the war will be massive. Simulations using the most recent macroeconomic projection show that the share of the population with incomes below the actual Subsistence Minimum (the national poverty line) may reach 70 percent in 2022, up from 18 percent in 2021. In the absence of a massive post-war support package, this indicator would still be higher than 60 percent by 2025. Based on the international upper middle-income poverty line (US$5.5 a day), poverty is projected to increase to 19.8 percent in 2022, up from 1.8 percent in 2021, with an additional 59 percent of people being vulnerable to falling into poverty.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	3.2	-3.8	3.4	-45.1	2.1	5.8
Private Consumption	10.9	1.7	7.7	-50.0	2.5	2.9
Government Consumption	-13.6	-0.7	1.8	-10.0	3.0	2.0
Gross Fixed Capital Investment	11.7	-21.3	7.6	-57.5	68.5	34.3
Exports, Goods and Services	7.3	-5.8	-10.4	-80.0	30.0	35.0
Imports, Goods and Services	5.7	-6.4	12.7	-70.0	42.0	24.0
Inflation (Consumer Price Index)	4.1	5.0	10.0	15.0	19.0	8.4
Current Account Balance (% of GDP)	-2.7	3.4	-1.1	-6.8	-16.8	-15.3
Fiscal Balance (% of GDP)[a]	-2.1	-5.6	-4.0	-17.5	-21.6	-14.6
Debt (% of GDP)	50.2	60.4	50.7	90.7	..	..
Primary Balance (% of GDP)[a]	1.0	-2.7	-0.5	-13.8	-16.6	-12.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	2.5	2.5	1.8	19.8	18.5	17.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Note: Projections are as of March 28, 2022.
a/ Fiscal Balance and Primary Balance are non-military balances from 2022 to 2024.
b/ Calculations based on ECAPOV harmonization, using 2020-HLCS.
c/ Projection using neutral distribution (2020) with pass-through = 0.87 based on private consumption per capita in constant LCU. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.