

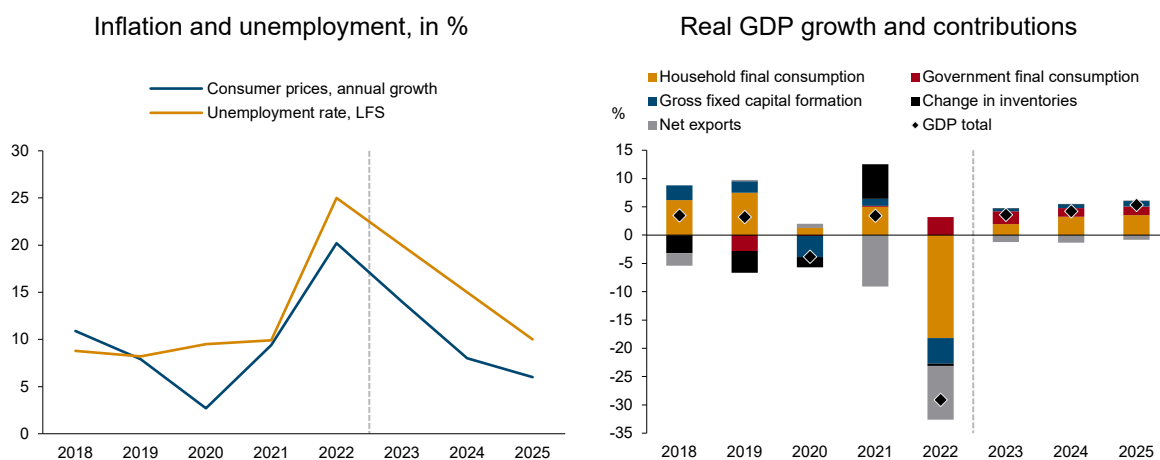


## UKRAINE: Economy showing resilience in wartime

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In Q2 2023, Ukraine's real GDP grew by 19.5% year on year, reflecting both the base effect and the resilience of the economy. Exports of agricultural and food products have been growing, despite Russia's withdrawal from the Black Sea Grain Initiative. Inflation has slowed more than expected, on the back of falling food and fuel prices. Given the greater-than-anticipated resilience of the economy, our GDP growth forecast for 2023 has been revised upwards. However, as the war is likely to be more protracted than we had initially hoped, growth in 2024-2025 will be lower than previously forecast. Most risks to the forecast continue to be on the downside.

**Figure 6.23 / Ukraine: Main macroeconomic indicators**



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

**In Q2 2023, Ukraine's real GDP grew by 19.5% year on year – the first quarter of positive growth since Russia's full-scale invasion in February 2022.** To a large extent, the double-digit growth can be explained by the statistical effect of the low base of comparison – the economy experienced its deepest slump in Q2 2022 (-36.9% year on year). Still, the country's economy has been recovering more rapidly than previously expected, supported by final consumption growth and resilient manufacturing and agriculture. The recovery in household demand is evidenced by the retail trade dynamics (+7.3% year on year in H1 2023), growing sales of new passenger cars (according to data from UkrAutoprom, sales of passenger cars rose by 3.4% year on year in Q2 2023, and in August the figure accelerated to 9.0%

year on year),<sup>33</sup> steadily rising occupancy of shopping malls,<sup>34</sup> and the booming domestic tourism sector.<sup>35</sup>

**Government consumption grew primarily to finance defence-related expenditure.** During January-July 2023, it increased by 235% year on year to account for about half of all fiscal spending. This was financed by tax revenues, while most of the rest of the fiscal spending was financed via foreign financial aid, which reached USD 30.6bn in the first eight months of 2023. Ukraine's budget deficit financing needs in 2023 are anticipated to be USD 59.3bn. However, only USD 42.1bn of foreign financing has been pledged so far, and the government has issued USD 10bn worth of domestic bonds. This leaves a financing gap of USD 7.2bn, which will likely be covered by additional issues of domestic bonds and additional pledges by foreign partners.

**The war has led to structural shifts in the economy.** The damage to the country's infrastructure and housing stock caused by Russia's missiles has led to an upsurge in construction activity, as well as in demand for metals and machinery and equipment. Ukraine's armed forces have also been generating demand for the production of military equipment, such as drones. The limited opportunities available for the export of non-agricultural products, and the destruction by Russia of many production facilities, mean that Ukraine's export structure has become dominated by agricultural commodities, which accounted for about 60% of total merchandise exports in the period January-July 2023, 20 percentage points (pp) higher than in 2021, the year before the war began.

**Agricultural performance in 2023 has been bolstered by a good harvest.** The Ministry of Agriculture forecasts that the gross harvest of grain and oilseeds this year will be slightly up on last year, because of the good weather (76.7m tonnes in 2023 vs 76.1m tonnes in 2022). The Ukrainian Grain Association's forecast is even higher – 80.5m tonnes.

**Exports of agricultural and food products have been growing, despite Russia pulling out of the Black Sea Grain Initiative on 17 July.** According to data provided by the Ukrainian Agribusiness Club association, Ukrainian agricultural exports rose by 16% between July and August to reach 4.3m tonnes. (Data from the State Statistics Service of Ukraine show that in January-July 2023, exports of grain increased by 24% and of food products by 29%, both year on year.) In August, a bigger than before share of exports passed through the Danube ports of Ukraine and by rail via the western border crossings. In addition to the land and river routes, Ukraine has been developing an alternative Black Sea corridor, in an attempt to break the sea blockade; this has been successfully tested by several ships.

**However, negative risks to the export performance have been increasing.** The constant missile attacks on Danube ports by Russia and the unilateral ban on imports of Ukrainian grain imposed by Poland and Hungary (in violation of the European Commission's decision on 14 September to lift the temporary ban on Ukrainian grain imports) have created additional complications for Ukrainian exporters.<sup>36</sup>

<sup>33</sup> <https://ukrautoprom.com.ua/en/category/statistics>

<sup>34</sup> <https://www.ucsc.org.ua/galuz-prodovzhuye-vidnovlennya-shho-chekaye-ukrayinski-trcz-u-drugij-polovyni-2023-go/>

<sup>35</sup> <https://forbes.ua/war-in-ukraine/trivozhnyy-vidpochinok-popit-na-turistichni-mistsya-vsередini-kraini-zris-u-devyat-raziv-viruchka-goteliv-na-zakhodi-ukraini-na-50-chomu-i-yak-ukraintsi-podorozhuyut-pid-chas-viyeni-31082023-15301>

<sup>36</sup> Initially Slovakia also defied the EU and restricted imports from Ukraine, but later it reached an agreement with Ukraine and lifted the ban.

**Inflation has slowed more than expected (8.6% year on year in August 2023), primarily on the back of falling food and fuel prices.** On 28 July, the National Bank of Ukraine (NBU) reduced its policy rate by 3pp – the first reduction since the rate was hiked to 25% in June 2022. This was followed by a second cut of 2pp on 15 September. Inflation is expected to continue to slow down in the coming years, to reach an annual figure of 6% in 2025, as the reduced security risks help cut business costs and increase the supply of consumer goods.

**The hryvnia exchange rate on the cash market remained stable throughout the summer, at an average level of below 38 UAH/USD.** It has been supported by the reduced inflationary pressures and the NBU's interventions to the tune of USD 1.5-2bn per month (the official exchange rate has remained fixed at 36.57 UAH/USD). Despite the interventions, the NBU's forex reserves remain at a record high of USD 40.4bn (equivalent to about seven months' worth of imports), thanks to the influx of foreign financial aid and the robust dynamics of personal remittances. The latter decreased only slightly (about 8%) during January-July 2023, compared to the same period of 2022, to USD 6.7bn, and remittances remain an important source of foreign currency in the country (equivalent to more than 20% of total exports).

**In view of the greater-than-expected resilience of the economy, our real GDP growth forecast for 2023 has been revised upwards, to 3.6% year on year.** However, as the war is likely to prove more protracted than we had initially hoped, growth in 2024-2025 will likely be lower than previously forecast – since no major investment in reconstruction of the country is likely to occur until the security risks become less significant. The mass return of refugees is unlikely to come about until there is more certainty about the outcome of the war. Foreign financial aid will be crucial if the economy is to stay afloat during this period.

**Most of the risks to the forecast continue to be on the downside.** The election of Donald Trump in the US presidential elections in November 2024 remains one of the biggest risks, as that could lead to a significant decline in US support for Ukraine (see section 2). Signs of a rift beginning to open up in the EU with respect to support for Ukraine also give cause for concern. The illegal bans on the import of agricultural products from Ukraine imposed by Poland and Hungary could undermine not only EU solidarity in support of Ukraine, but also fundamental principles of the EU single market.

**Table 6.23 / Ukraine: Selected economic indicators**

	2020	2021	2022 <sup>1)</sup>	2022 January-June	2023	2023 Forecast	2024 Forecast	2025
Population, th pers., average	41,745	41,378	35,000	.	.	34,300	34,000	35,500
Gross domestic product, UAH bn, nom.	4,222	5,451	5,191	.	.	6,100	6,900	7,700
annual change in % (real)	-3.8	3.4	-29.1	.	.	3.6	4.2	5.3
GDP/capita (EUR at PPP)	8,580	9,470	8,340	.	.	.	.	.
Consumption of households, UAH bn, nom.	3,054	3,718	3,342	.	.	.	.	.
annual change in % (real)	1.7	6.9	-26.7	.	.	3.0	5.0	5.5
Gross fixed capital form., UAH bn, nom.	564	720	603	.	.	.	.	.
annual change in % (real)	-21.3	9.3	-34.3	.	.	4.0	6.0	8.0
Gross industrial production								
annual change in % (real)	-4.5	1.9	-36.7	.	.	2.0	4.0	6.0
Gross agricultural production								
annual change in % (real)	-10.1	16.4	-25.0	.	.	.	.	.
Construction output								
annual change in % (real)	5.6	6.8	-64.8	.	.	.	.	.
Employed persons, LFS, th, average	15,915	15,610	13,000	.	.	13,500	14,000	14,500
annual change in %	-4.0	-1.9	-16.7	.	.	3.8	3.7	3.6
Unemployed persons, LFS, th, average	1,674	1,712	4,330	.	.	3,380	2,470	1,610
Unemployment rate, LFS, in %, average	9.5	9.9	25.0	.	.	20	15	10
Reg. unemployment rate, in %, eop <sup>2)</sup>	1.6	1.1	.	.	.	.	.	.
Average monthly gross wages, UAH <sup>3)</sup>	11,591	14,014	14,847	.	.	17,600	20,100	23,400
annual change in % (real, gross)	7.5	10.5	-11.9	.	.	4.0	6.0	10.0
Consumer prices, % p.a.	2.7	9.4	20.2	15.1	19.4	14.0	8.0	6.0
Producer prices in industry, % p.a.	-1.6	40.8	26.0	.	.	10.0	9.0	5.0
General governm. budget, nat. def., % of GDP								
Revenues	32.6	30.5	42.3	.	.	40.0	40.0	40.0
Expenditures	37.9	33.9	58.6	.	.	67.0	55.0	50.0
Deficit (-) / surplus (+)	-5.3	-3.4	-16.3	.	.	-27.0	-15.0	-10.0
General gov. gross debt, nat. def., % of GDP	60.4	49.0	78.5	59.4	77.3	88.0	90.0	93.0
Stock of loans of non-fin. private sector, % p.a.	-2.8	8.2	-3.1	4.8	-7.6	.	.	.
Non-performing loans (NPL), in %, eop	41.0	30.0	38.1	29.7	38.9	.	.	.
Central bank policy rate, % p.a., eop <sup>4)</sup>	6.00	9.00	25.00	25.00	25.00	20.0	15.0	10.0
Current account, EUR m <sup>5)</sup>	4,612	-3,278	7,587	2,567	-1,831	-1,100	-5,100	-7,800
Current account, % of GDP	3.4	-1.9	5.0	3.8	-2.4	-0.7	-3.1	-4.5
Exports of goods, BOP, EUR m <sup>5)</sup>	39,527	53,301	38,926	18,857	17,081	33,300	36,000	38,900
annual change in %	-3.9	34.8	-27.0	-17.2	-9.4	-14.5	8.1	8.1
Imports of goods, BOP, EUR m <sup>5)</sup>	45,462	58,911	52,871	22,948	28,160	58,100	62,800	69,000
annual change in %	-15.6	29.6	-10.3	-6.2	22.7	9.9	8.1	9.9
Exports of services, BOP, EUR m <sup>5)</sup>	13,628	15,532	15,816	7,626	7,483	16,100	17,000	18,300
annual change in %	-12.6	14.0	1.8	12.8	-1.9	1.8	5.6	7.6
Imports of services, BOP, EUR m <sup>5)</sup>	9,775	12,178	26,366	11,111	12,375	24,300	24,900	25,600
annual change in %	-30.3	24.6	116.5	112.8	11.4	-7.8	2.5	2.8
FDI liabilities, EUR m <sup>5)</sup>	266	6,717	235	-146	2,401	3,700	.	.
FDI assets, EUR m <sup>5)</sup>	317	368	32	119	135	300	.	.
Gross reserves of CB excl. gold, EUR m <sup>5)</sup>	22,422	25,920	25,282	20,172	34,165	.	.	.
Gross external debt, EUR m <sup>5)</sup>	102,293	114,426	122,949	120,236	135,830	148,000	153,000	148,000
Gross external debt, % of GDP	74.6	67.8	80.5	78.7	89.0	97.0	93.0	85.0
Average exchange rate UAH/EUR	30.79	32.31	33.98	31.74	39.52	40.0	42.1	44.3

Note: Excluding the territories occupied by the Russian Federation from 2014 to 2022, and territories where the military actions are/were conducted in 2022 and 2023. Due to the war, most of the usual statistical data are not being collected or published. This means that all Ukraine forecasts are subject to an unusually high degree of uncertainty.

1) Preliminary. - 2) In % of working age population, wiiw estimate. - 3) Enterprises with 10 and more employees. - 4) Discount rate of CB. - 5) Converted from USD.

Source: wiiw Databases incorporating national statistics. Forecasts by wiiw.