



Ukraine's macroeconomic stability as a robust foundation for future reconstruction endeavors

17 May, 2023

Chief Analyst, Vladimir Miklashevsky

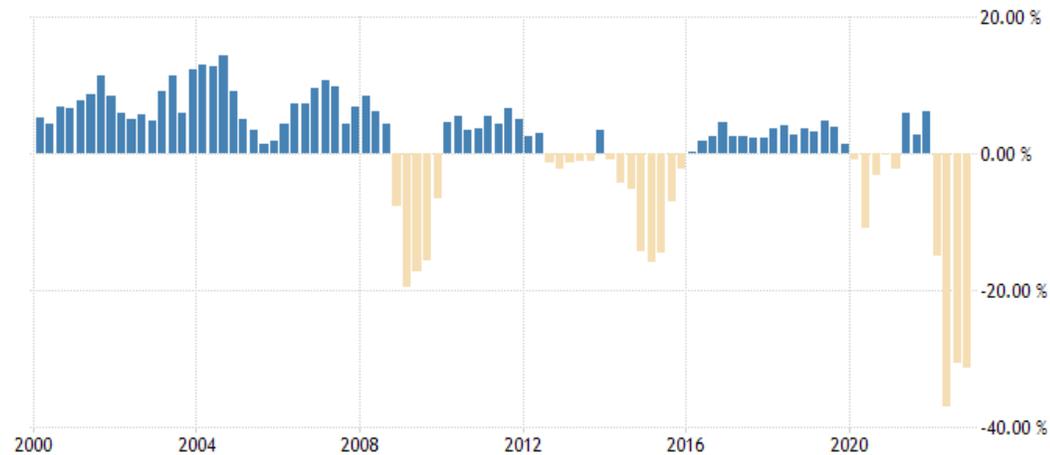
Key trends in the Ukrainian economy in 2023

- **GDP contraction and zero growth:** Following a significant one-third decline in GDP in 2022, the low base effect is expected to result in zero growth in 2023. This scenario is unfolding in an exceptionally uncertain environment.
- **Shrinking sources of national income:** The various sources of national income have been experiencing a decline, contributing to the economic challenges faced by Ukraine.
- **Importance of export continuity:** Sustaining Ukrainian exports is crucial for ensuring future macroeconomic stability, as it serves as a vital condition for overall economic well-being.
- **Rising government debt and the need for frugality:** The mounting government debt is prompting the need for greater economic prudence and frugality to address fiscal challenges.
- **Western assistance and macro stability:** Assistance from Western nations has played a significant role in guaranteeing macroeconomic stability, particularly in ensuring the stability of the UAH.
- **War-induced labor market disruption:** The ongoing war has severely impacted the labor market

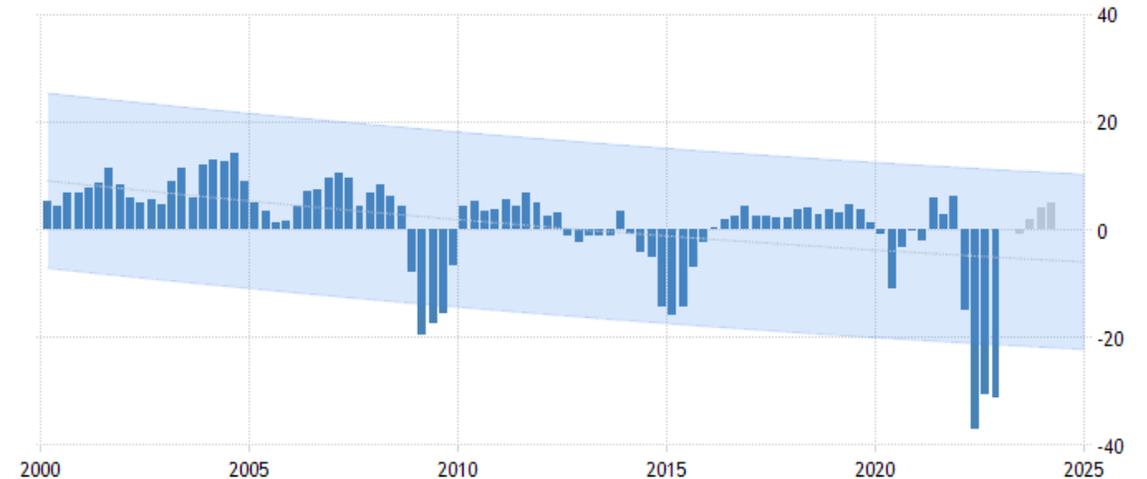
Ukraine's GDP growth is projected to recommence during the second half of 2023

- Ukraine's GDP shrank by 30.4% in 2022, compared to the 3.4% growth in 2021, according to preliminary estimates by the Ministry of the Economy.
- It is the biggest contraction since independence in 1991 due to the large-scale invasion by Russia in February 2022.

Ukraine's annual GDP growth: the war has exerted a significant dampening effect on overall economic activity



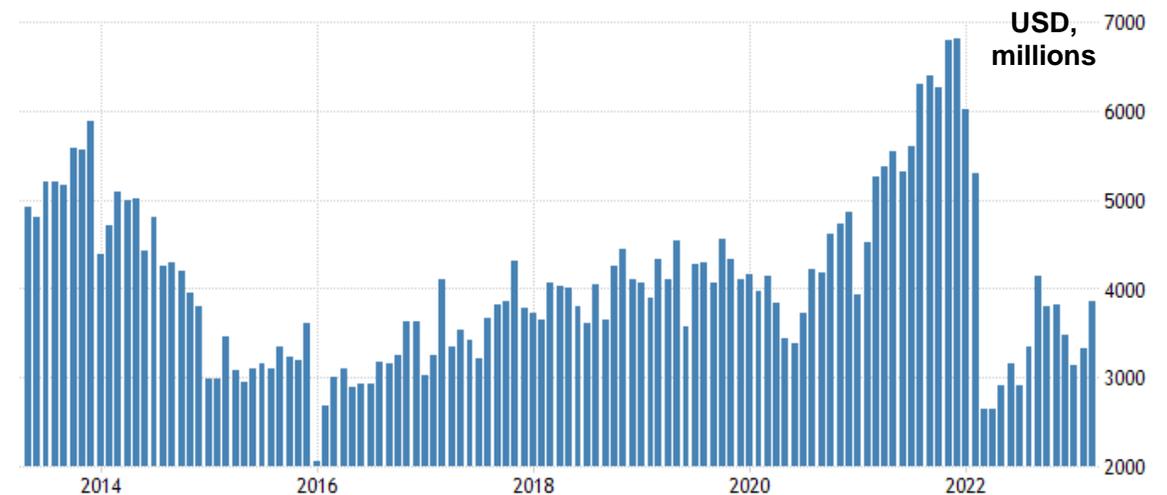
While the most optimistic forecasters envision an annual expansion of the economy surpassing 7%, the persisting uncertainty is likely to curtail growth to just above zero



Exports remain a vital source of income for the national economy

- While the economic toll suffered by Ukraine as a result of the invasion is enormous, the reopening of Ukraine's Black Sea ports and resumption of grain trade, as well as substantial donor support, are helping support economic activity this year.
- Ukraine's exports jumped by 45.5% y/y to USD 3.9bn in March 2023 from USD 2.6bn million in March 2022 due to rising sales of products of vegetable origin (+202%), oils & fats of animal or vegetable origin (+176%), and ready-made products (+233%).
- On the other hand, shipments fell for base metals and articles of base metal (-18%) and machinery & mechanical appliances, electrical equipment & parts thereof (-24%).

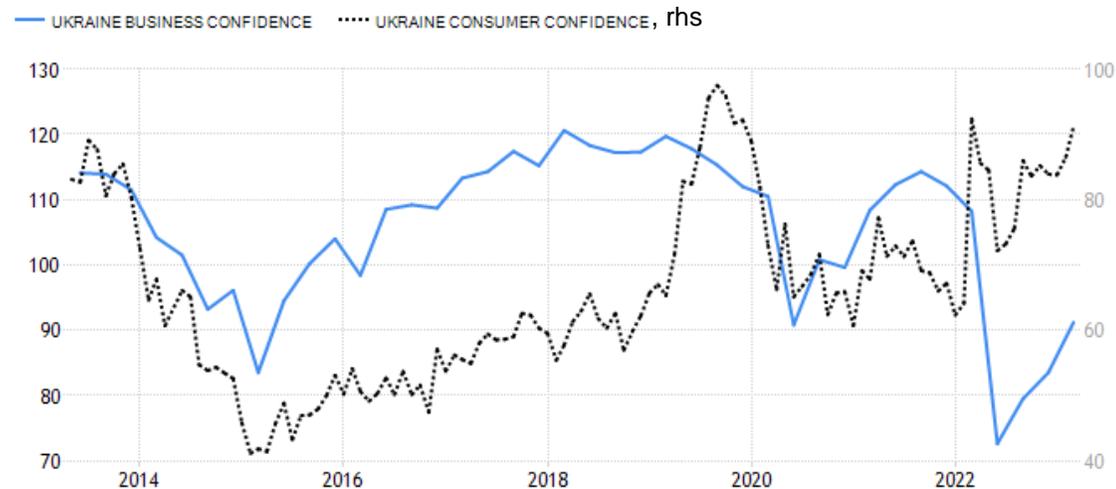
Ukraine's monthly exports have risen nearly to USD 4bn



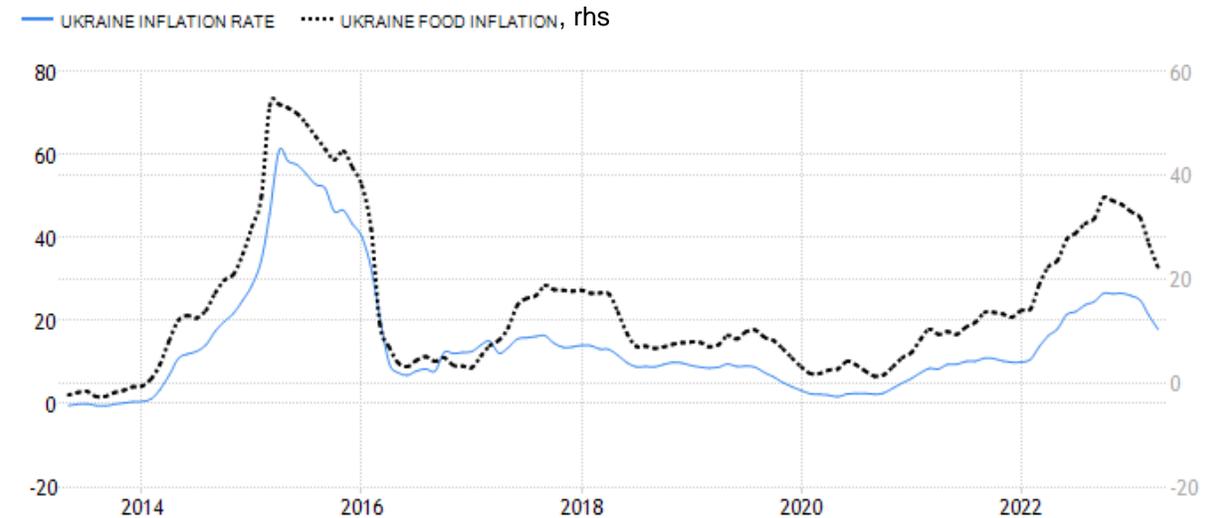
Source: Trading Economics, East Office

Business and consumer confidence exhibit notable improvement as energy shortages are mitigated and the surge in inflation is left in the rearview

Business and consumer confidence are experiencing a rapid recovery



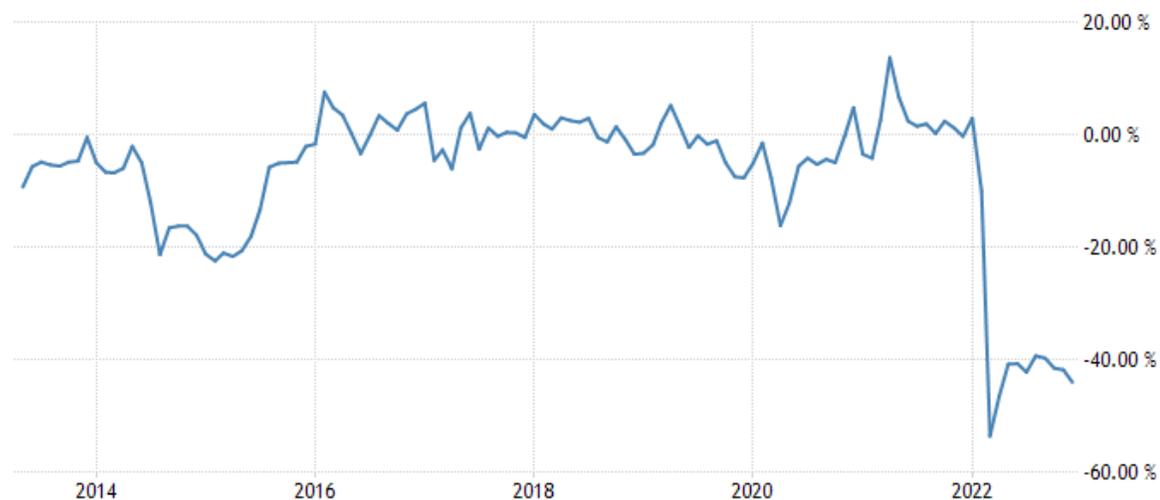
Inflation has persistently decelerated due to a combination of stringent monetary policy and the high base effect stemming from the previous year



Source for both charts: Trading Economics, East Office

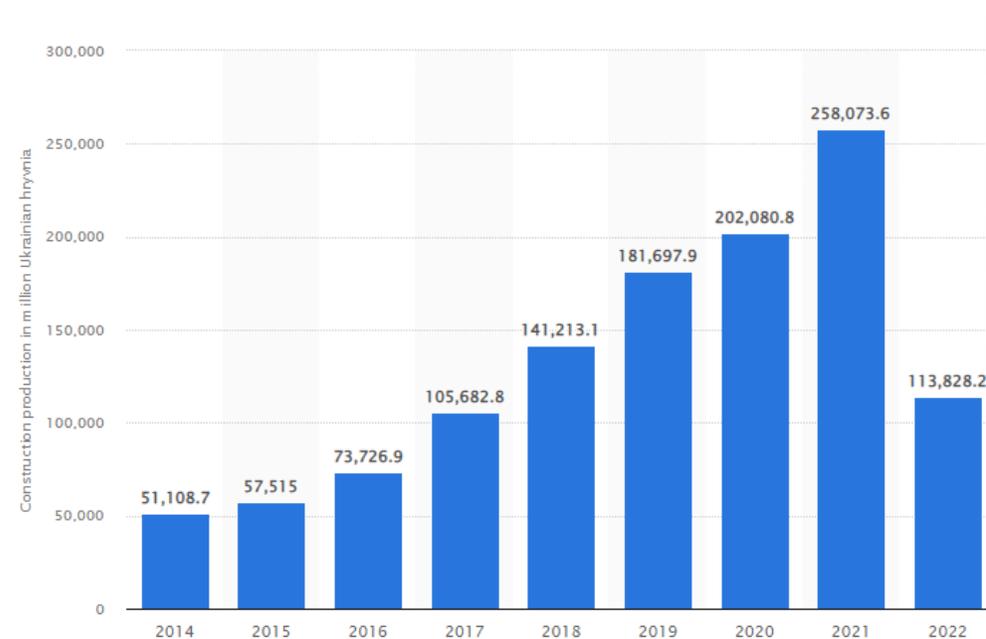
Industrial production has borne the brunt of the war, as numerous factories have been destroyed, closed, or lost in occupied territories, leading to substantial disruptions in logistics and overall production capacity

Industrial production dives the most since 2000s



Source: Trading Economics, East Office

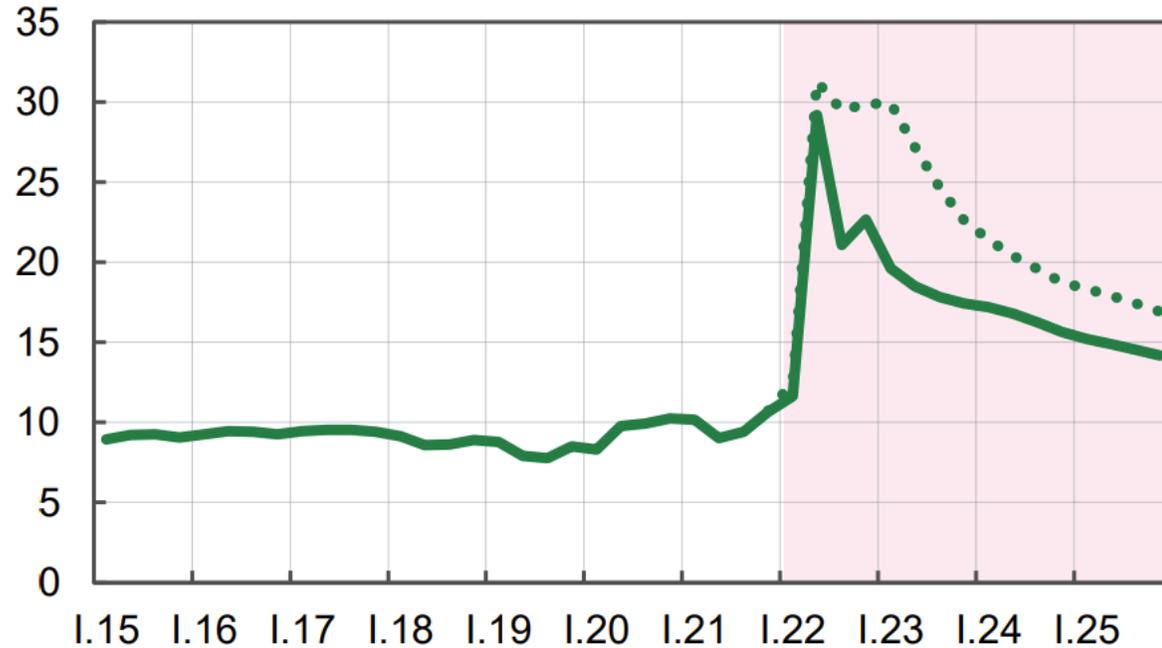
Value of construction production (UAH, mn) dropped more than a half in 2022. The sector faces the potential burden of labor shortages, which could further impact its operations



Source: Statista

War-induced labor market disruption: The ongoing war has severely impacted the labor market

Ukraine's unemployment rate according to ILO, s.a, %.
The latest data pertains to Q4 21. The projections presented are based on calculations conducted by the National Bank of Ukraine (NBU).



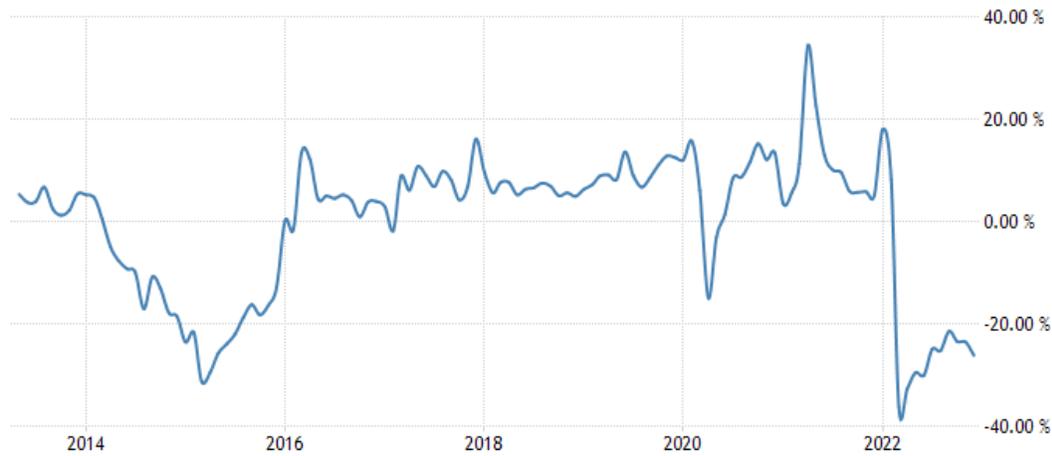
Source: NBU

According to the Confederation of Employers of Ukraine:

- Since the beginning of the war, Ukraine has lost 30%, or 5.5m members of its workforce.
- The workforce losses observed in Ukraine are greater than in Germany after World War II. From 1939 to 1946, the working-age population in Germany decreased by 4.7m, which was 16% - roughly half as much as seen in Ukraine.
- The situation in Ukraine is also complicated by the labor force's movement in response to the war - as of the beginning of 2023, 50-55% of all non-disabled people have changed their residence.

Consumer data looks better than a year ago, while hawkish credit policy and disruptions within the economy cause setbacks

Retail sales growth (y/y) recovery has lost the momentum



Consumer credit (UAH, mn) saw a tiny growth in March 2023, while the overall picture has stayed weak

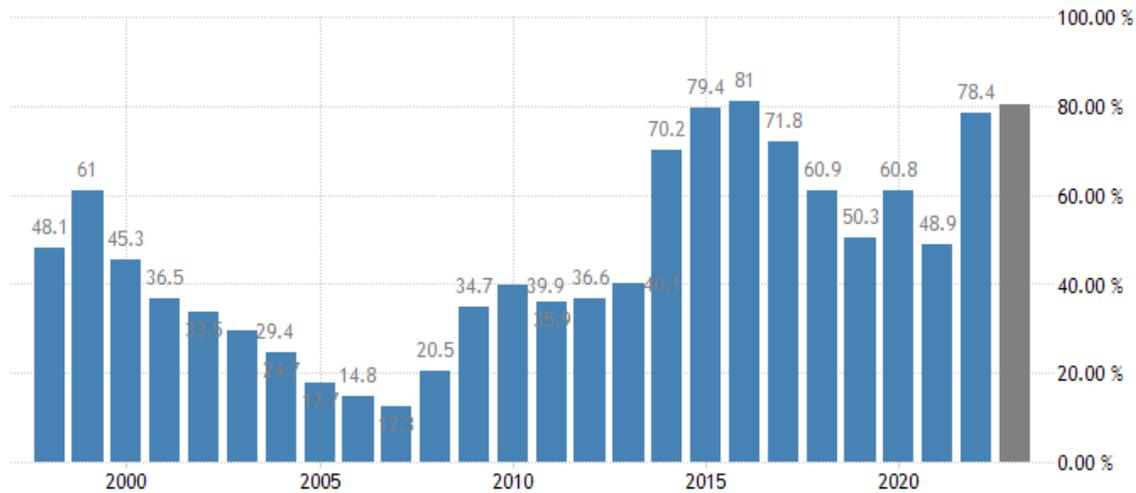


Source: Trading Economics, East Office

Source: Trading Economics, NBU, East Office

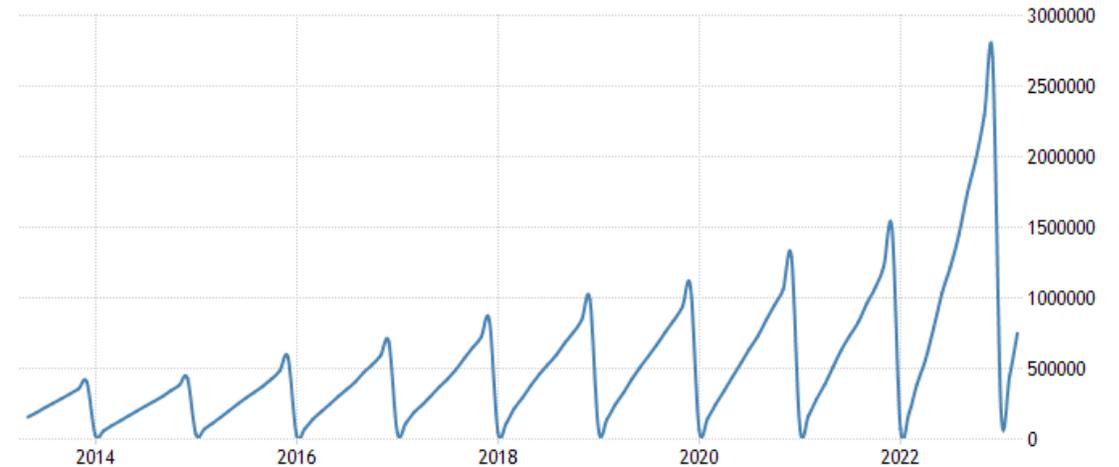
Public finances are severely hit by the war. Rising taxes and reductions in social spending are highly likely

The debt-to-GDP ratio of the Ukrainian government is poised to potentially increase further due to the country's heavy reliance on external financing



Source: Trading Economics, East Office

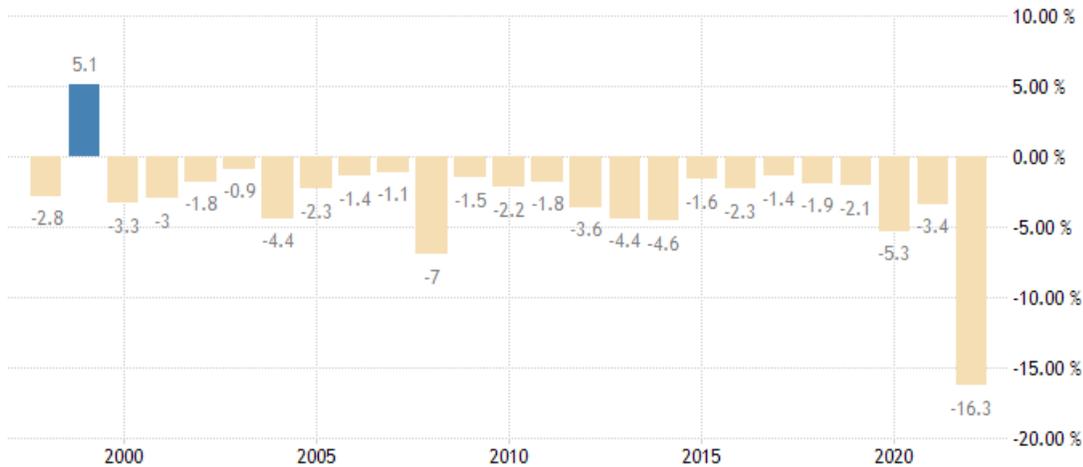
The fiscal expenditure of Ukraine (UAH, mn) has predominantly increased as a result of mounting defense costs



Source: Trading Economics, East Office

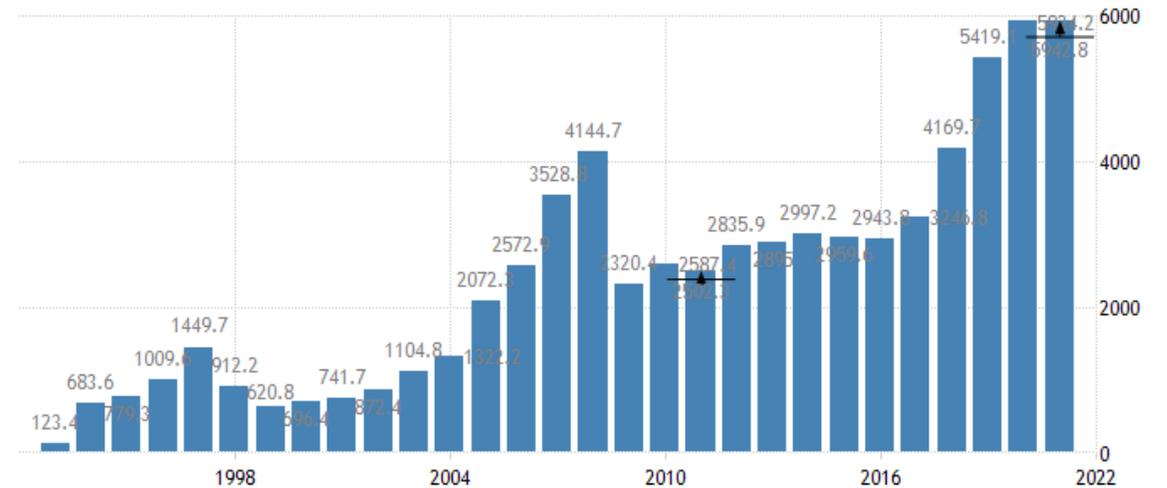
Public finances are severely hit by the war. Rising taxes and reductions in social spending are highly likely

Ukraine's government budget deficit expanded to record levels since 2000s



Source: Trading Economics, Ukraine's Finance Ministry, East Office

Military expenditure in Ukraine (USD, mn)



Source: Trading Economics, SIPRI, East Office

Monetary policy will likely to be loosened in H2 23, given the decreasing inflation trend

Ukraine's key rate has remained high to curb accelerated inflation



Source: Trading Economics, NBU, East Office

UAH rate: stability improves on growing FX reserves



Source: Trading Economics, SIPRI, East Office



Update from Kyiv: steps towards reconstruction of Ukraine

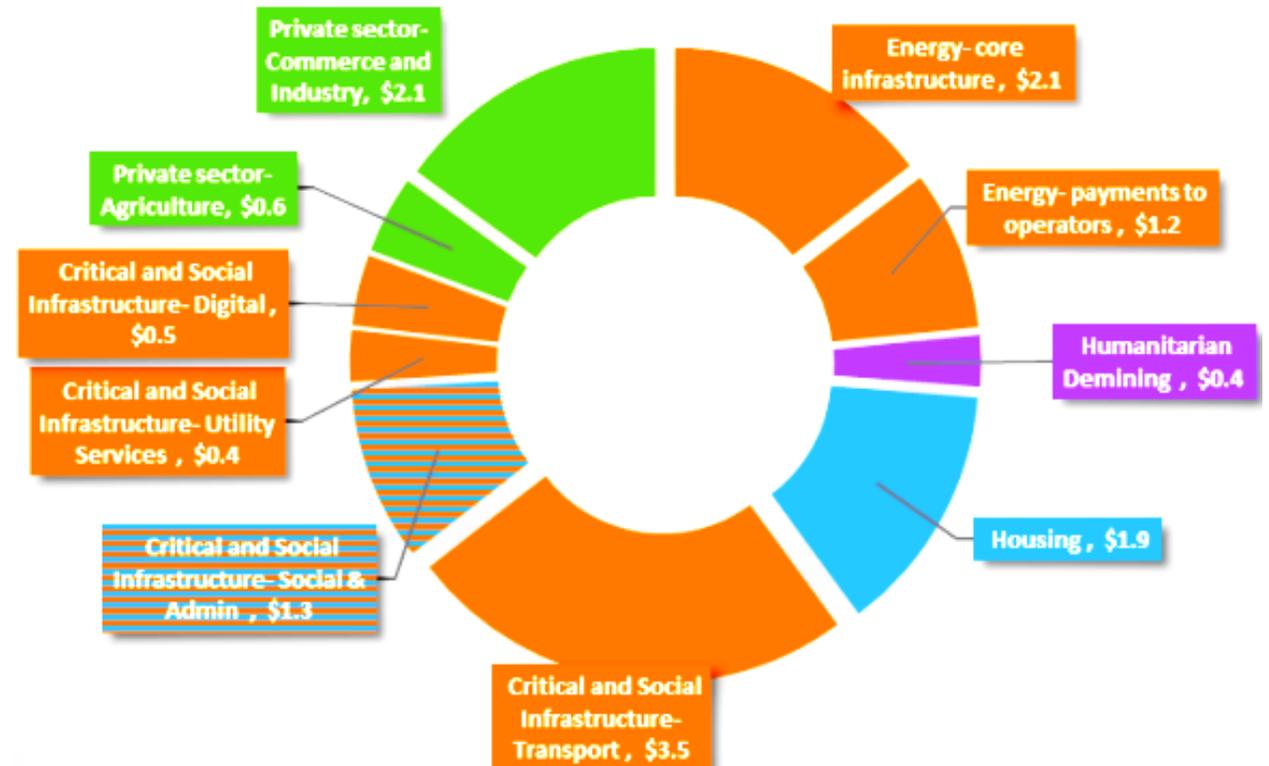
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Government Relations Director in Ukraine, Vasyl Shvets

Assessing the Impacts of the Conflict: Rapid Damage and Needs Assessment

- ▶ The second Ukraine Rapid Damage and Needs Assessment (RDNA2), February 24, 2022 - February 24, 2023
- ▶ Total estimated reconstruction and recovery needs exceed US\$411 billion
- ▶ Costs estimated for 10 years
- ▶ Implementation priorities for 2023 at around US\$14 billion
 - ▶ Three sectors dominate investment needs: critical and social infrastructure-transport, energy, and housing

Priority needs for 2023

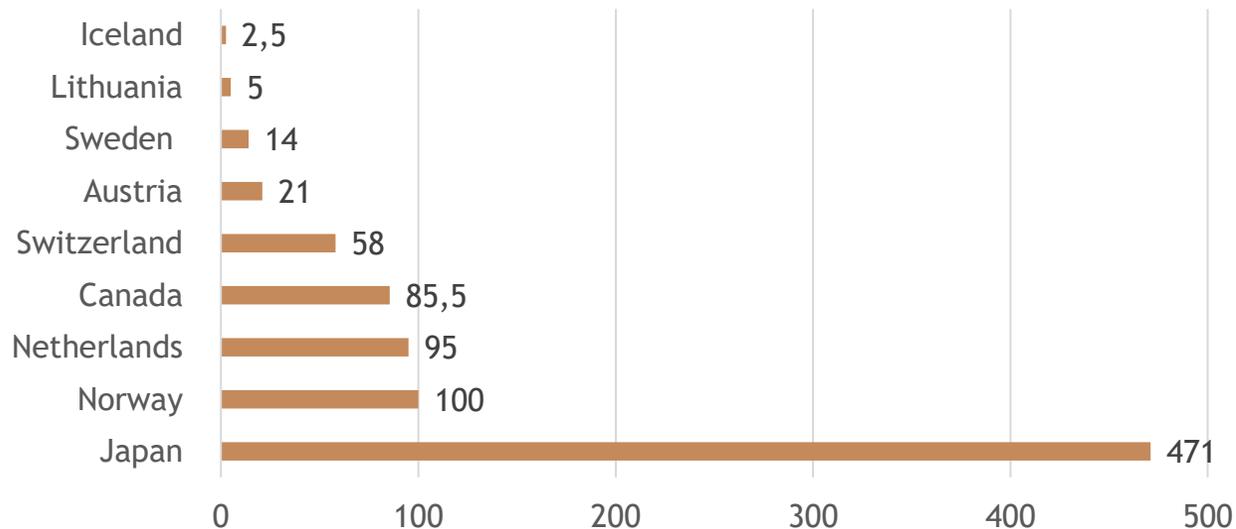


Source: World Bank, Government of Ukraine, European Union, United Nations.

International financial mobilization initiatives for the reconstruction of Ukraine

- ▶ World Bank Ukraine Relief, Recovery, Reconstruction and Reform Trust Fund (URTF) - a coordinated financing and support mechanism to assist the Government of Ukraine to sustain its administrative and service delivery capacity, conduct relief efforts, as well as plan and implement Ukraine's reconstruction and reform agenda.

\$852 million



- ▶ EIB approves “EU for Ukraine” Initiative
 - ▶ EU for Ukraine Fund - partial guarantees for EIB loans, concessional lending, and impact finance. It will enable the EIB to continue to finance urgent and critical projects under the EU banner until a more permanent funding solution is available.
- ▶ EIB shareholders - \$100 million (technical assistance)
- ▶ Italy - \$100 million

Business Outreach Workshops for Ukraine. June 6, 2023





Kazakhstan and Russia

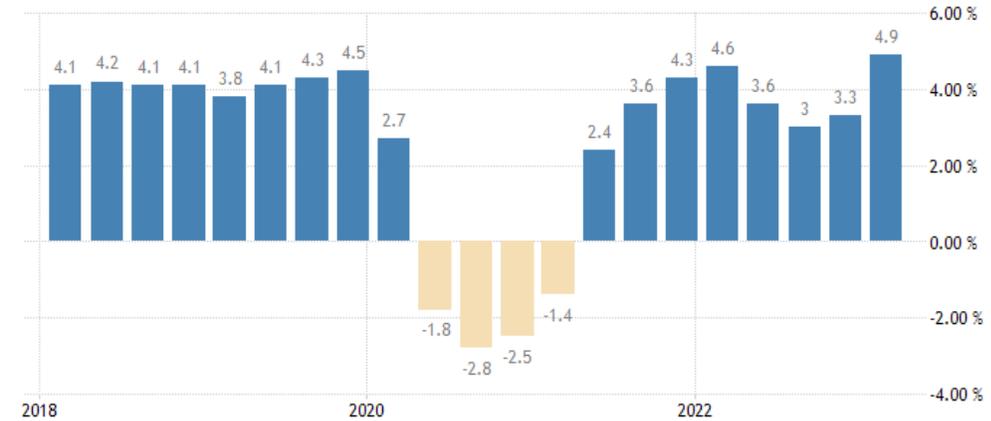
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Kazakhstan: the economy is experiencing robust growth as Russia gets what it wants

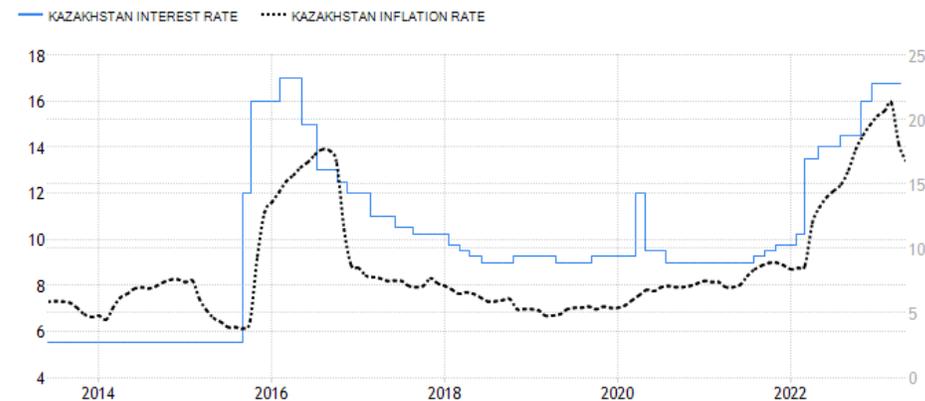
- The economy grew 4.9% y/y in Q1 23, while it expanded 3.2% y/y in 2022. Moreover, the country successfully attracted USD 28bn in FDI, marking an impressive year-on-year increase of 18% and further contributing to the economic expansion.
- Construction, communications and IT sector, retail sales are growing the most.
- Kazakh exports to Russia grew 25% y/y in 2022, as machinery exports spiked 350%, while total exports of goods increased 24%.
- Economy is benefiting from reallocation of Russian businesses.
- Current downside risks to the economic growth: Western sanctions to curb links to the Russian economy. Inflationary pressure may further erode incomes and exacerbate social tensions, Russia's tough stance on transit to/from Kazakhstan.

Kazakhstan GDP annual growth rate (%)



Source: Trading Economics, East Office

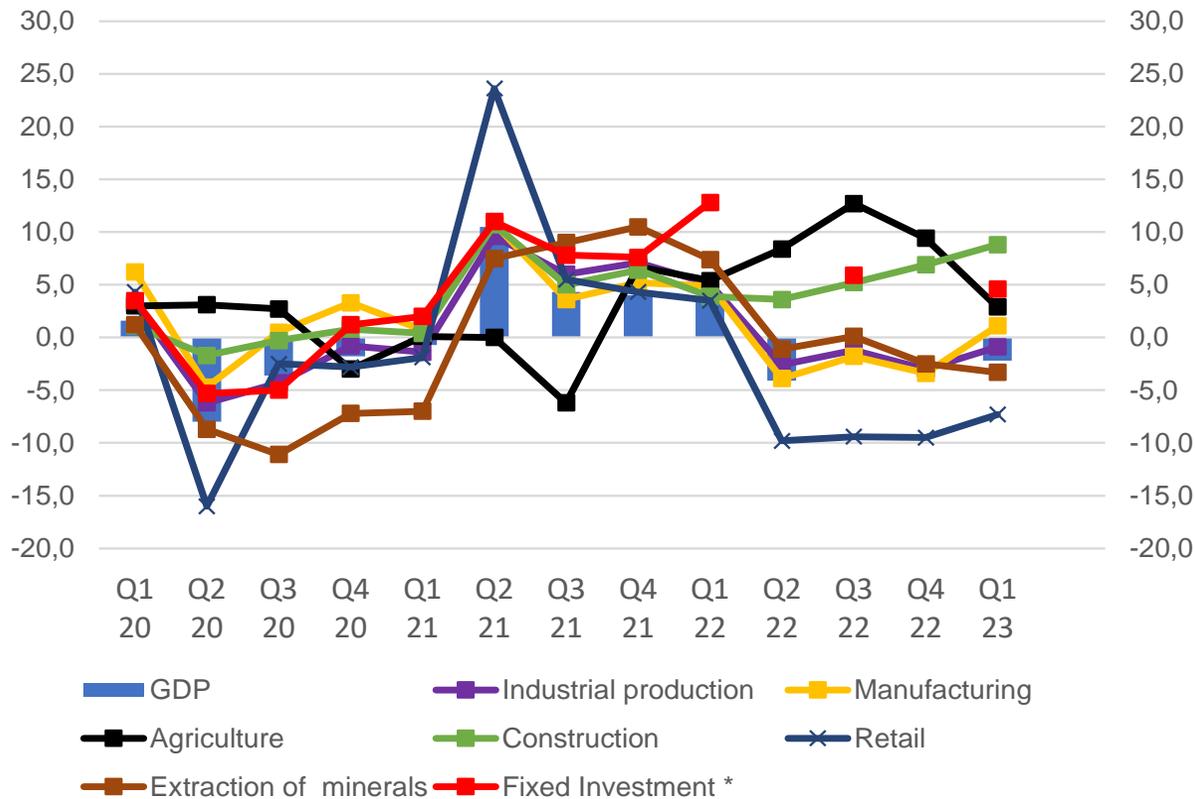
Kazakh central bank succeeds to curb inflation with tight monetary policy



Source: Trading Economics, NBK, East Office

Russia: the year starts in negative territory

Real economy indicators, % change y/y

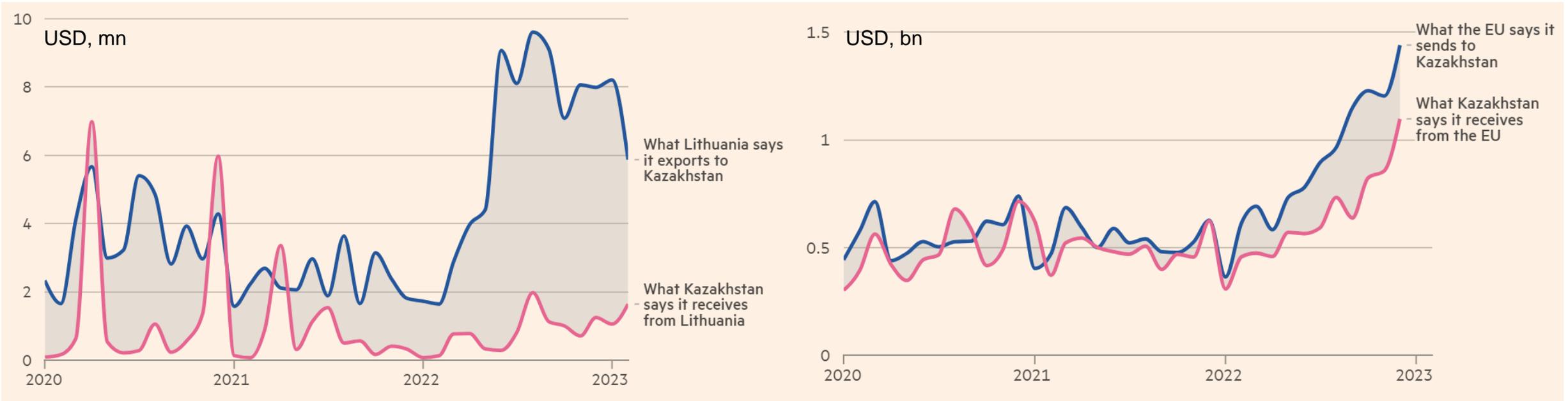


Source: Rosstat, East Office

Russian economy in Q1 23: major updates:

- **Public finances:** Expenditures have doubled in comparison to income, resulting in the utilization of the rainy day fund to cover the shortfall.
- **Regional expenditure:** A significant portion, up to 70%, of regional spending is allocated to social initiatives, national projects, and road construction.
- **Healthcare expenditure:** There has been a decrease in healthcare spending during this period.
- **Oil and gas:** Information regarding oil and gas production remains undisclosed, while mining figures show a decline in various regions.
- **Manufacturing sector:** Manufacturing has shown positive growth, particularly in regions with a significant presence of the military industry.
- **Car manufacturing:** The car manufacturing sector stays in coma.
- **Timber industry:** The decline in the timber industry has been relatively mild compared to late 2022, indicating a degree of adaptation within the sector.
- **Services sector:** The services industry has experienced growth, and internal tourism continues to flourish.

The bonus chart: monthly flows declared by national customs



Source: FT