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The economic situation in Ukraine: challenges and outlook

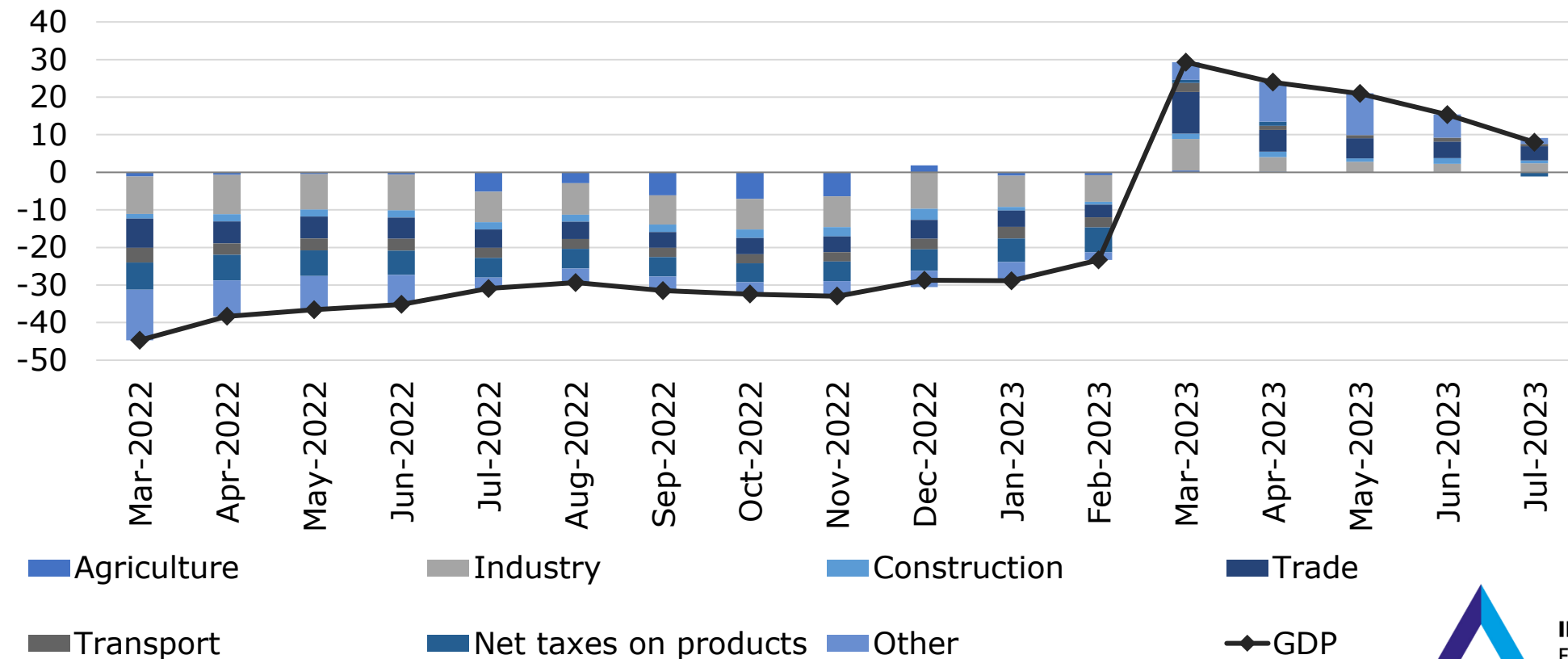
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IER Kyiv

29 August 2023

Real GDP: March 2022 – June 2023

Real GDP by components, p.p., IER estimates



Economic trends

- According to the IER estimate, the real GDP growth rate in July decelerated to 8% yoy from 15% yoy in June. The slowdown in growth primarily reflected a higher statistical base (the pace of GDP decline in the third quarter of 2022 slowed down significantly).
 - Real gross value added (GVA) in agriculture increased by almost 5% yoy primarily due to the lower statistical base of July 2022. The flooding of territories in June due to the destruction of the Kakhovka dam by russians slowed the pace of crop recovery
 - The processing industry grew by more than 20% yoy due to the recovery of all sectors from a low base.
 - The growth rate of real GVA in transport slowed to 9% yoy, while the GVA in trade continued to grow rapidly (about 27% yoy)
- However, economic activity has not yet approached pre-war: according to our estimates, real GDP fell by 25% compared to July 2021.

External trade

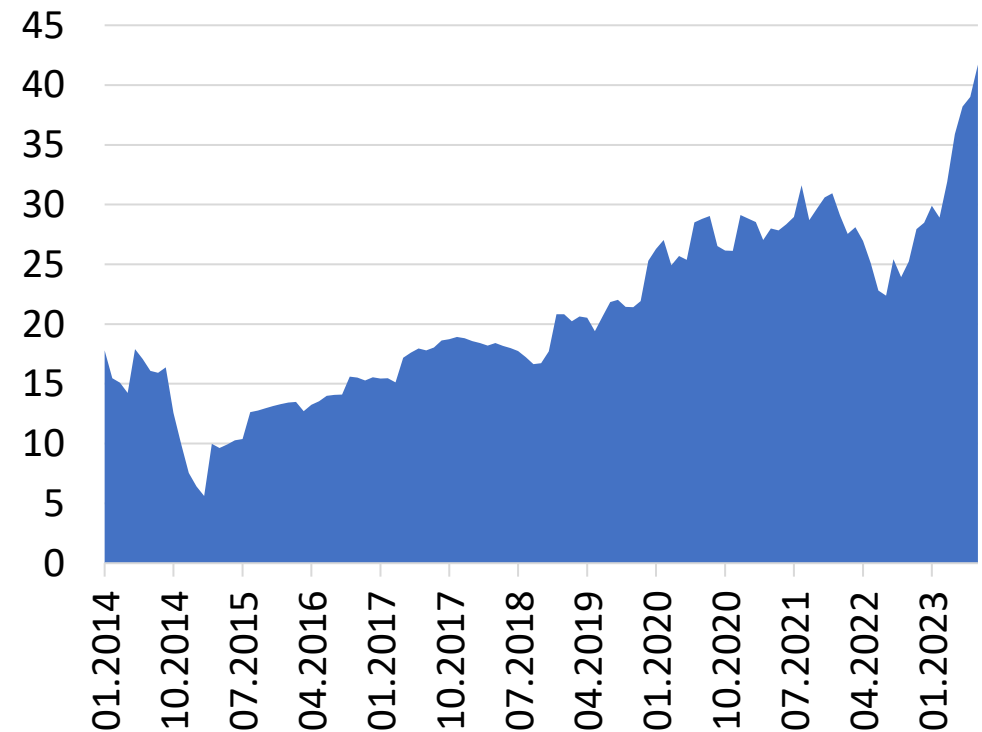


- In the first seven months of 2023, Ukraine exported goods worth USD 21.9 bn (-16% yoy) and imported USD 35.7 bn (+ 19% yoy).
- The trade deficit in goods reached USD 13.7 bn

Monetary policy

- The NBU lowered the discount rate at the last monetary policy meeting from 25% to 22%.
- By the end of the year, most NBU monetary policy committee members expect a further reduction in the policy rate to 18-20% p.a.
- Stable donor assistance and lower costs of maintaining the peg in 2023 helped the NBU to grow the international reserves. This increased cushion in case of growing import needs or disruption of inflows.
- NBU international reserves to swell to all-time record in nominal terms at USD 41.7 bn in end-July. Adjusting for US inflation reserves are the highest in the last 10 years.

International reserves, USD bn



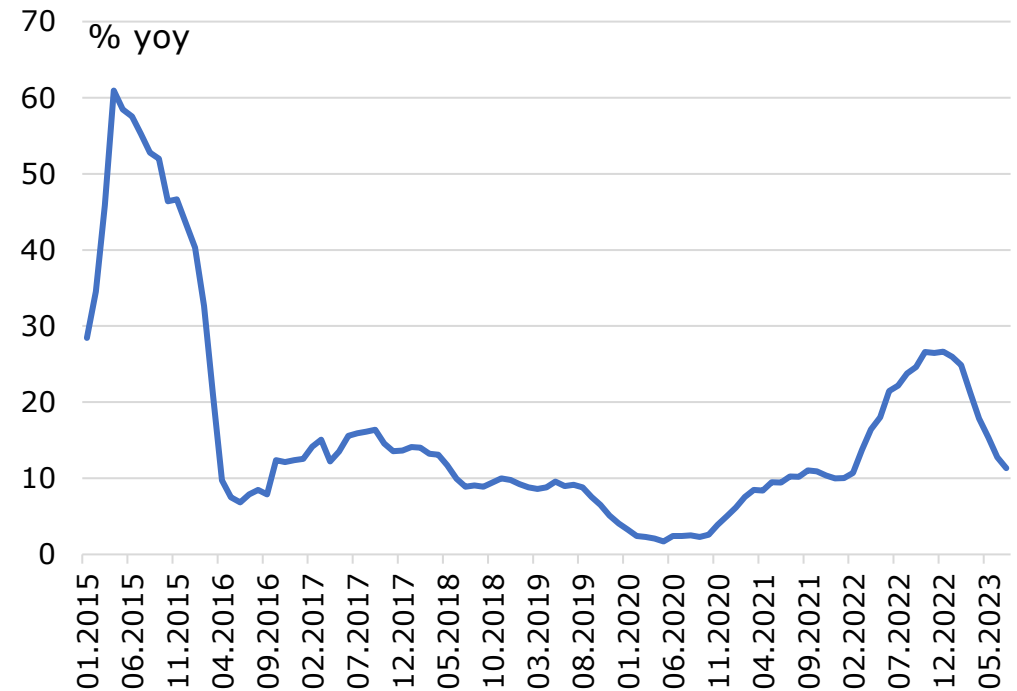
Source: NBU



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Inflation

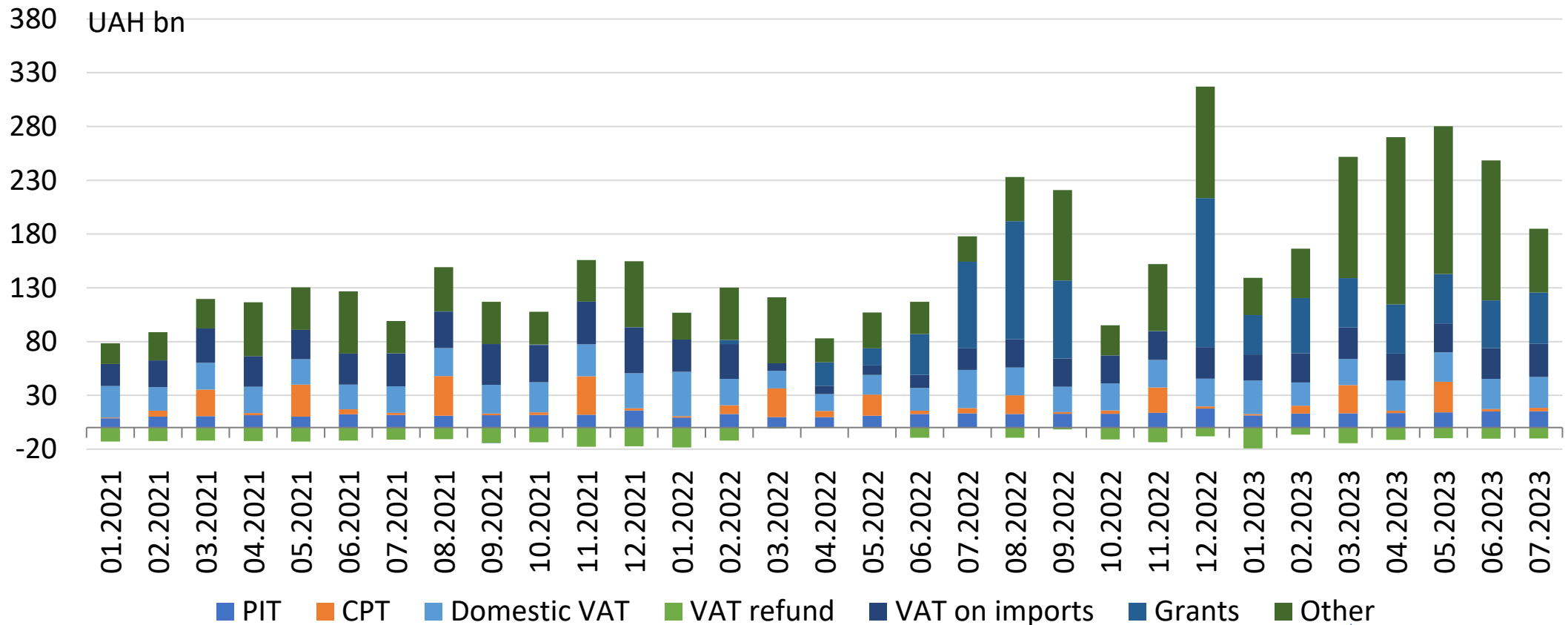
- In July, consumer inflation slowed for the seventh consecutive time to 11.3% yoy (over the past 12 months) compared to 26.6% yoy in December 2022
- That was due to restrained consumer demand and the NBU's keeping the hryvnia exchange rate fixed
- Large increase in electricity prices (71/100% depending on consumption) for households in June is expected to increase CPI by 1-1.5%.
- Tax changes and resulted increases in prices of gas and water for households also add to consumer inflation in the second half of the 2023



Source: Ukrstat



Central fiscal revenues

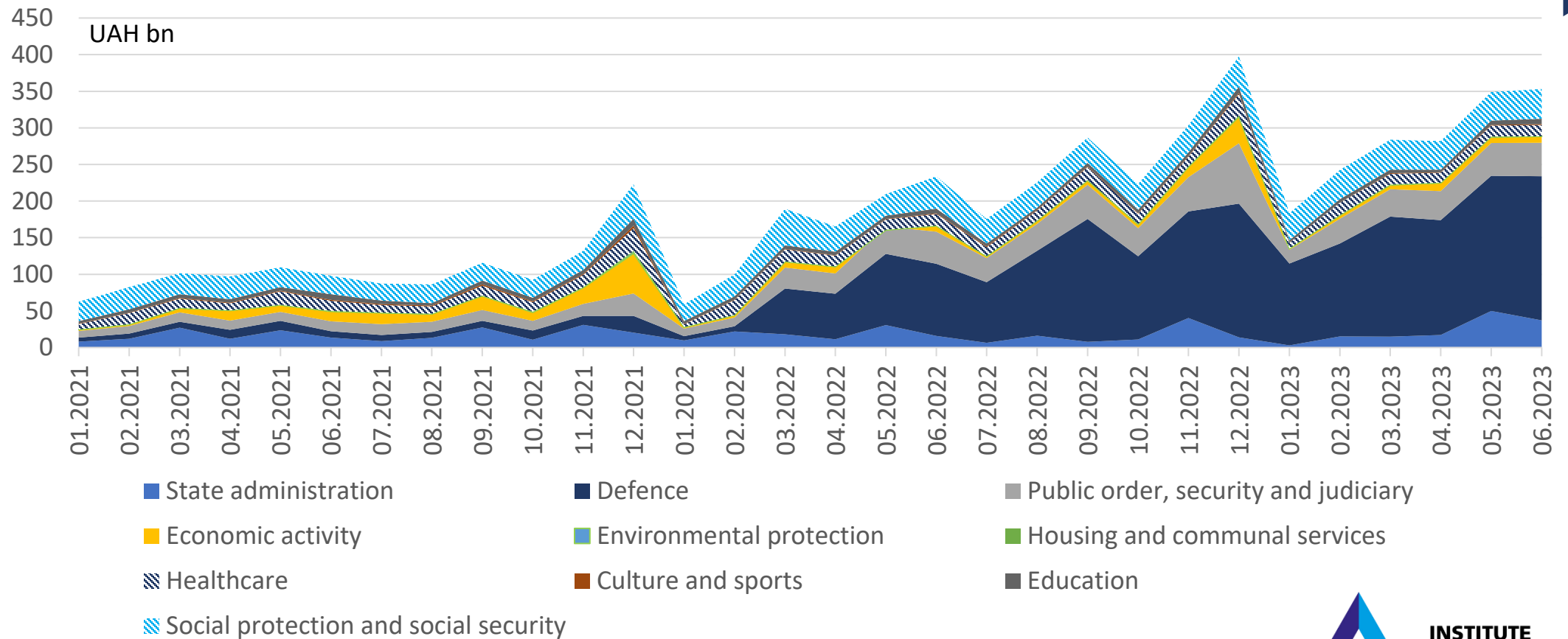


Source: MinFin

Note: * July 2023 – preliminary

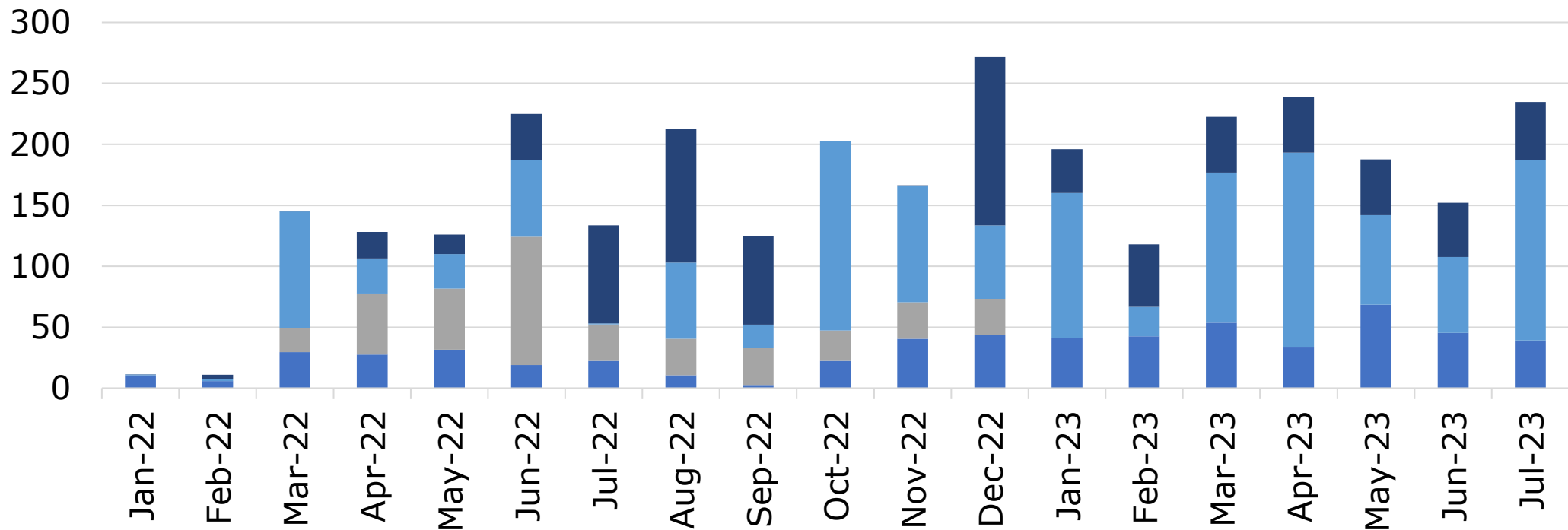


Central fiscal expenditures



Source: MinFin

State budget financing and grants



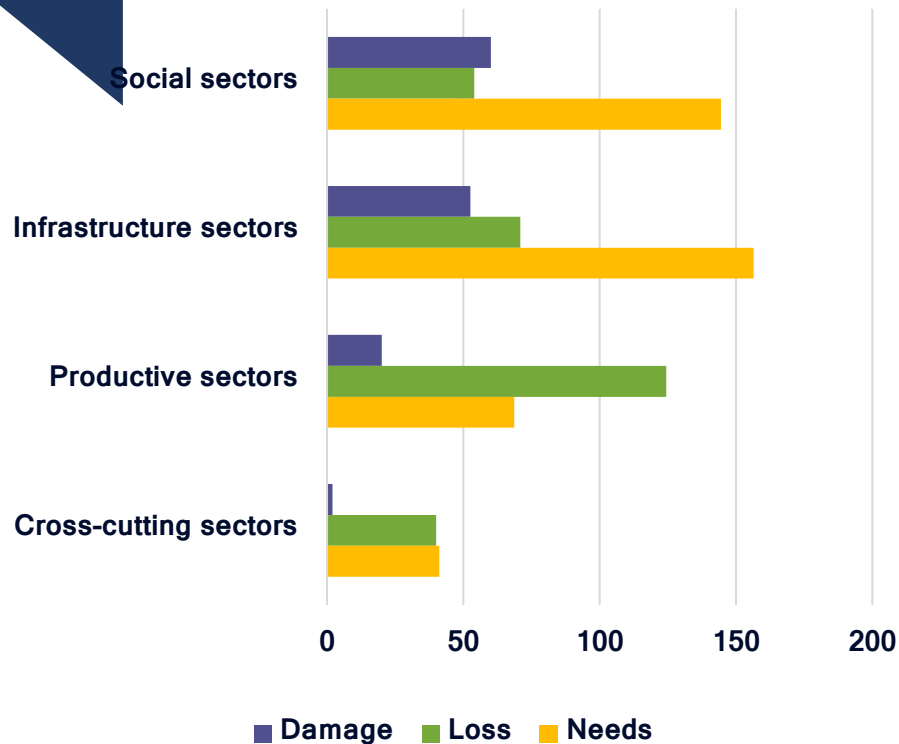
■ Grants*
■ War bonds to NBU

■ External borrowings
■ Domestic state bonds / War bonds - auctions

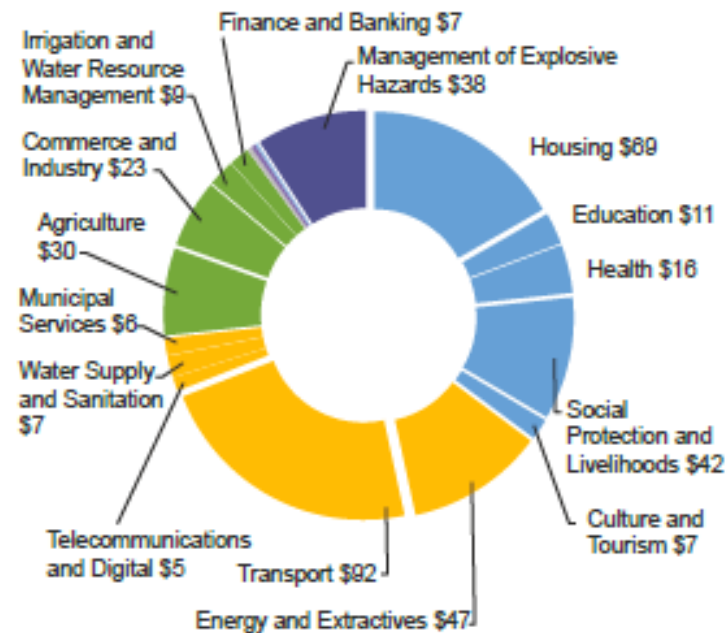
Source: MinFin

Huge damages – large needs

Damage, loss, and needs



Total recovery and reconstruction need:
USD 411 bn



Total need: USD 411 bn
(already more)
Includes concept 'Build Back Better'

However, no MT and LT commitments on financial assistance
- BUT Ukraine Facility from the EU to come

Business engagement and private investments are of need

Architecture of Reconstruction

Team

(ownership)

Chef

the Prime Minister of Ukraine

Sous Chef

the Ministry of Recovery - performs important tasks at the behest of the Head Chef

Purchasing Manager

- The Agency for Restoration for large and standardized dishes
- Local communities (hromadas) for local dishes

Accountant and financier

the Ministry of Finance

Chefs

line ministries

Meticulous oversight of preparation and sanitary conditions is carried out by

- **civil society** - at all stages of preparation for all dishes
- **the international community** - primarily during the procurement of products and financing
- **the Accounting Chamber of Ukraine** - during funding and afterwards

Ministry of Infrastructure (often named *Ministry of Recovery*): responsible for the policy-making in the area of reconstruction + participates in the definition of priorities

Restoration Agency: service / implementation agency:

- Implements large-scale projects
- Might act on behalf of local communities if those lack capacity to prepare and implement projects
- Has regional offices
- Prepares typical project documents

Local communities: active stakeholders that initiate projects as well as can look for financing, implement them if they have capacities



Ukraine Recovery
Cookbook



Bottom-up Approach



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DREAM - Digital Restoration Ecosystem for Accountable Management

- a state reconstruction management system that creates a single digital pipeline for reconstruction projects and ensures transparent and effective implementation of the projects at the national and regional levels
- For international financial institutions (IFIs) and donors, the DREAM provides opportunities for transparent and open selection of projects for implementation, as well as to monitor their implementation at all stages: from project registration, development of documentation, to procurement, construction management and audit. DREAM is a "single window" for financing, management and control of projects.

Useful links

- IER MEMU – Monthly Economic Monitoring of Ukraine - http://www.ier.com.ua/en/publications/regular_products/monthly_economic_monitoring (to subscribe, please, write with the request to zhovtenko@ier.kyiv.ua)
- IER New Monthly Enterprises Survey, June 2023 - <http://www.ier.com.ua/en/institute/news?pid=7233>
- EBA Investment Map: <https://investmentmap.com.ua/>
- Essay Collection from the RISE Ukraine Coalition presented in London - <https://www.rise.org.ua/blog/success-is-the-only-option-essey-collection-from-the-rise-ukraine-coalition-presented-in-london>

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