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NEWSLETTER UKRAINE

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Economic resilience in focus

Ukraine's GDP is forecast to moderately grow in 2024 but to remain far from pre-war levels. Growth is driven by increased private consumption due to recovery of real wages while both private and public investment is restricted due to lack of financing and uncertainty. Exports are forecast to slightly improve due to the establishment of a Ukraine sea corridor, however still being below imports. The resulting current account as well as the fiscal deficit display a twin crisis challenge for Ukraine. International effort is therefore decisive to keep the economic resilience in terms of export support and financial aid.

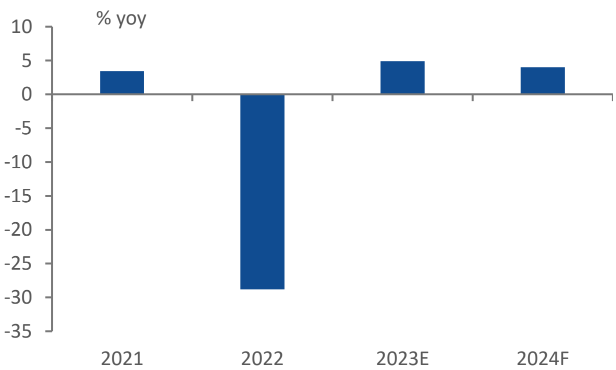
Growth in 2023 and 2024, but from a low basis

Real GDP is estimated to increase by 5.2% in 2023 after it contracted by 28.8% in 2022. In 2024 it will further increase by 4.0%. However, Ukraine remains far from a recovery. The economy will stand 21% below pre-war levels.

The forecast is based on the following assumptions:

- War intensity will not reduce in 2024.
- Ukraine will receive aid under support programmes, including IMF and the US.
- No significant changes in fiscal or monetary policies.
- Sea shipping will gradually expand, supporting the development of agriculture as well as metallurgy.

Ukraine's annual real GDP change



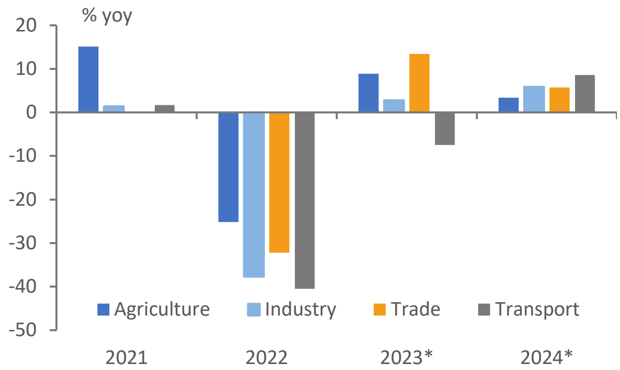
*Sources: Ukrstat, *IER/GET forecast*

Supply side

We forecast modest growth (at 3.4%) in agriculture in 2024 as demining of farmland progresses, farmers continue adapt to the new conditions, and export logistics improves. At the same time, weather conditions are expected to revert to mean.

Export logistics and more stable energy supplies are improving. This will help increasing industrial production. Still, industry output is projected to remain by over 30% lower than in 2021. We assume that seaborne trade will continue to recover in 2024 including shipments of industrial goods. Land cargo flows both domestic and external are estimated to increase. This will allow transport to recover the 2023 losses leading to 8.6% growth in 2024 after 7.5% estimated drop in 2023.

Development of key sectors



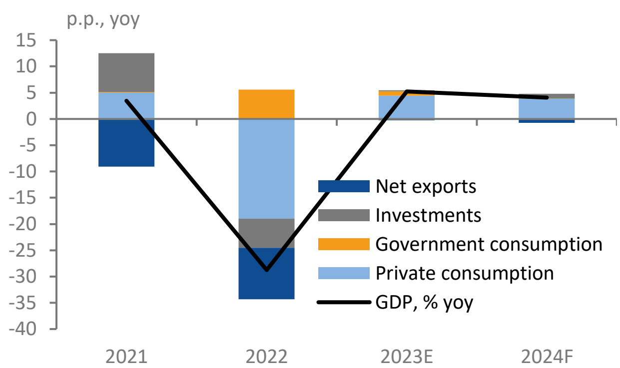
*Sources: Ukrstat, *IER/GET forecast*

Moreover, trade grows in line with higher international trade flows and domestic consumer demand.

Demand side

Real private final consumption is increasing by 5.9% in 2024 due to savings that were not used before. Moreover, real wages are growing and to almost reach pre-war levels. Thus, private consumption will remain the main driver of growth. Public consumption for military expenditure will remain important. The pension indexation is expected in spring.

Demand side: contributions to economic growth



*Sources: Ukrstat, *IER/GET forecast*

We project gross fixed capital accumulation will grow by 10.7% yoy in 2024.This is attributed to emergency reconstruction and repair needs, growth in defense investments as well as gradual rebound in private investment. At the same time, it will still remain by over 19% lower than in 2021 due to lack of financing for rebuilding and uncertainty for private investment.

German Economic Team

Current account in deficit

Current account deficit is projected to widen to 8.1% of GDP in 2024. This will reflect increase in demand for imports as well as lower grants to Ukrainian budget. Export revenues in dollar terms are projected to remain close to 2023 level as prices for some commodities are expected to be lower than in 2023 while the export volume to increase due to improved logistics, primarily via the sea. International effort in insuring and supporting this transport route will be decisive to improve the current account development.

Inflation: Faster slowdown than expected

Inflation was 5.1% yoy at the end of 2023. The National Bank managed to anchor inflation expectations to some degree and recovery of consumer demand remained moderate. In addition, good harvest, drop in global prices for energy and some of the other key commodities, better logistics, helped to keep prices in check while exchange rate changes were limited. In 2024 we see inflation expectations to remain anchored, limited exchange rate fluctuations to continue and commodity price to stay close to 2023 levels. it is assumed that the NBU will keep interest rates high with almost double-digit real key rate. However, the downward pressure on prices will be less severe in 2024 as consumer demand grows. We also assume some increases in regulated prices. Thus, we forecast inflation to reach 8.2% yoy by the end of 2024.

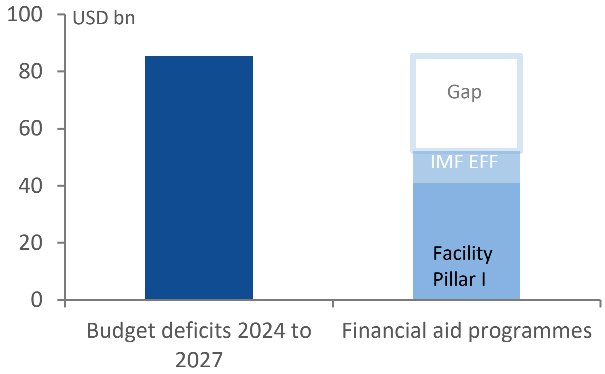
Fiscal deficit

In 2024, fiscal situation will remain difficult. Domestic resources will be sufficient to cover defense and security spending under the assumption of continued military assistance from international partners. As a result, gross government financing need (incl. domestic bond refinancing) is expected to remain high at about USD 50 bn. This includes USD 36 bn in assumed funding from donors. We also assume that the Government will reach deal with commercial creditors that will allow to avoid repayments this year. In 2022, the Government reached a standstill agreement, which expired in September 2024. The IMF programme envisages the debt restructuring. Overall, fiscal deficit (excluding grants) is forecasted at 22% of GDP in 2024. As a result, state and state-guaranteed debt is expected to reach about 95% of GDP in 2024. If international financial assistance in 2024 will be lower than planned in the budget, the Government will have difficulty in paying on its key spending priorities. One of the options will be partial monetization of the deficit by the NBU which however would have adverse effects on the macro-financial stability.

The facility by the EU and outlook

The European Council approved the 'Ukraine facility', an instrument included in the EU budget, that ensures predictable financing support of total EUR 50 bn to Ukraine for 2024 to 2027. This instrument consists of a pillar of budget support to Ukraine, a pillar for an investment framework, and a pillar that combines financing of technical assistance helping to align with EU laws. While this instrument significantly eases the budget pressure for the period, it is still not sufficient to fully cover the estimated budget deficits.

Budget needs and financial aid programmes



Sources: EU, IMF

Not even talking about the reconstruction costs that already exceed USD 400 bn.
Therefore, while discussing concepts for green and sustainable large-scale reconstruction of Ukraine is important already during the war, Ukraine and its partners have to keep their focus on strengthening the current resilience to keep financing the economic, social, and further challenges that are caused by the war.

This newsletter is based on the joint forecast for 2024 by the Institute for Economic Research and Policy Consulting (IER) and the German Economic Team and the forthcoming Economic Monitor for Ukraine.

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.
**Advisory activities in Belarus are currently suspended.*

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