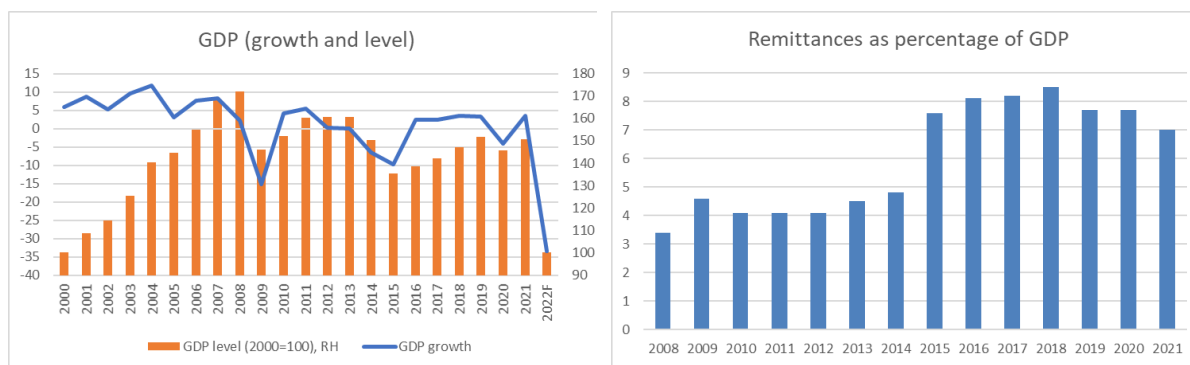


UKRAINE Country brief

Economic Overview

The war changes everything

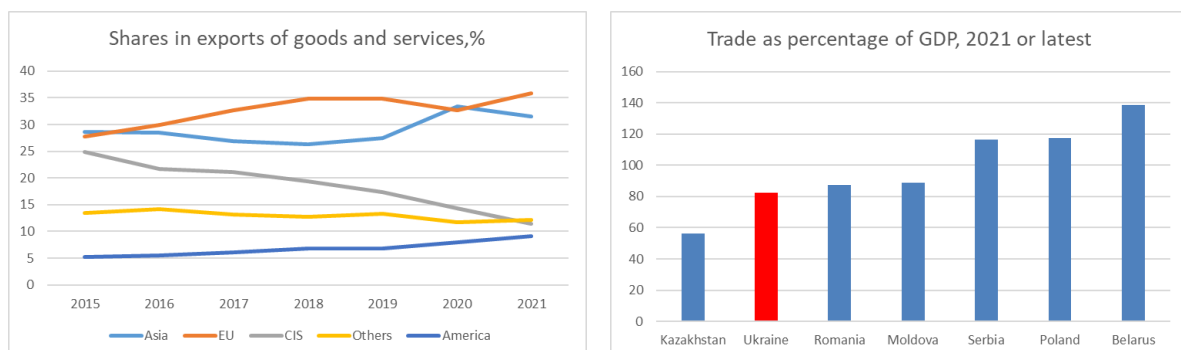
Economic growth in Ukraine has been punctuated by recurrent setbacks but, over the last years, the country embarked in a period of steadily improving economic indicators, which came to a temporary end with the COVID-19 pandemic. The war starting in February 2022 has dramatically changed the development outlook for years to come. Most forecasters project output contracting for at least one third in 2022. The destruction of infrastructure, the disruption of supply lines and the displacement of the population will continue to constrain economic activity in the immediate future. Migration in recent years has led to growing remittances but also to human capital losses. The war will have long lasting effects on labour markets.



Source: IMF, National Bank of Ukraine

Institutional changes and a revamped infrastructure will facilitate European integration

Ukraine is a relatively open country, who has been rapidly increasing its commercial relations with the EU. Exports are dominated by commodities, including agricultural products, minerals and metals. ICT services have increased rapidly in recent years, accounting for around 5% of the total. The ability to trade has been impaired by the war, in particular regarding maritime routes through Black Sea ports. A search for alternative export routes has highlighted the limitations of existing infrastructure, including road and rail. EU accession remains a distant prospect, but the process, once the war ends, will trigger institutional changes and further reorientation of the economy.

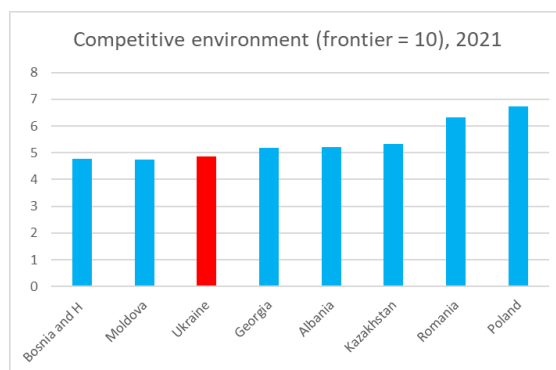
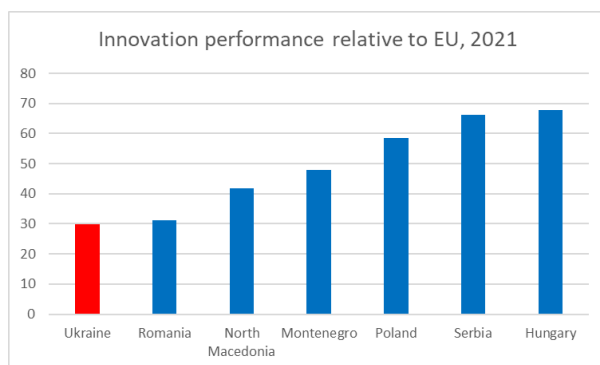


Source: National Bank of Ukraine, World Bank Development Indicators

Further reforms are required to unleash Ukraine's potential

The rapid development of the ICT sector shows the country's potential for growth and diversification. However, there are multiple factors that undermine Ukraine's innovation performance, which has

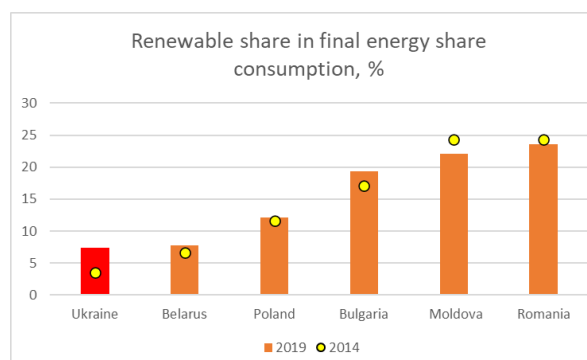
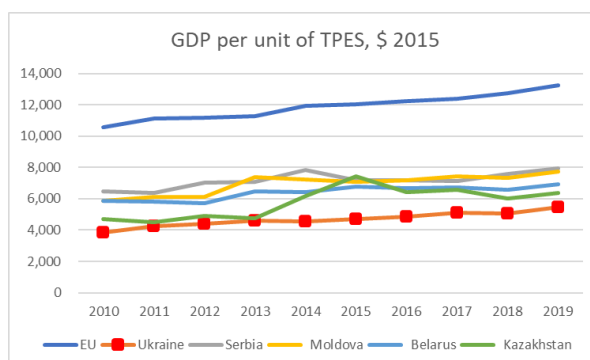
been deteriorating vis-à-vis the EU in recent years. Despite recent reforms, the competitive environment compares unfavourably with regional peers and labour productivity is low.



Source: EU Innovation Scoreboard, EBRD

Green and circular transition is necessary to address environmental problems

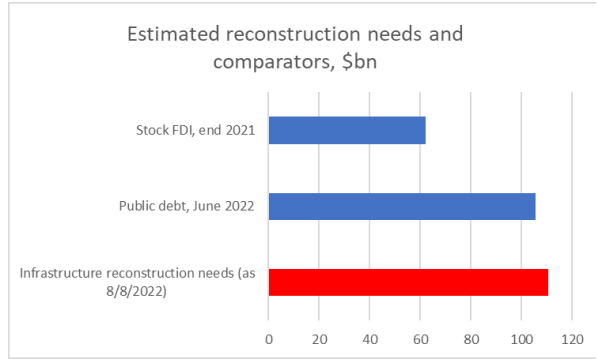
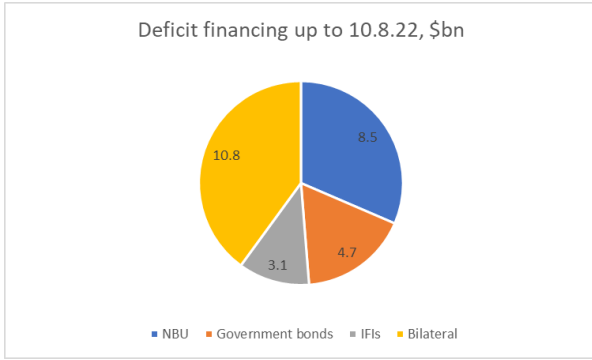
Despite improvements, energy intensity in Ukraine remains large, with a significant potential to increase energy efficiency in both housing and the industrial sector. The share of renewables in final energy consumption has doubled in the last five years with data, but it is still low. New initiatives have been launched in recent years to revamp waste management, advance commitments under the EU Association Agreement and raise recycling rates from low levels. The war is leaving on its trail of destruction extensive environmental damage that would need to be addressed.



Source: IEA; SDG UNECE database

International public finance will remain critical for some time

The public deficit increased sharply in 2022 (18% of GDP projection, according to the NBU), as revenues have plummeted in a contracting economy and defence and social assistance needs have increased expenditures. Most of the public external financing provided so far has been in the form of loans, which are adding to the debt burden. International bondholders have agreed on a 24-month debt service freeze but no additional private funding is likely in the near term. Financing reconstruction needs are huge and will require substantial and sustained international public support.



Source: Ministry of Finance of Ukraine, Kyiv School of Economics, UNCTAD