

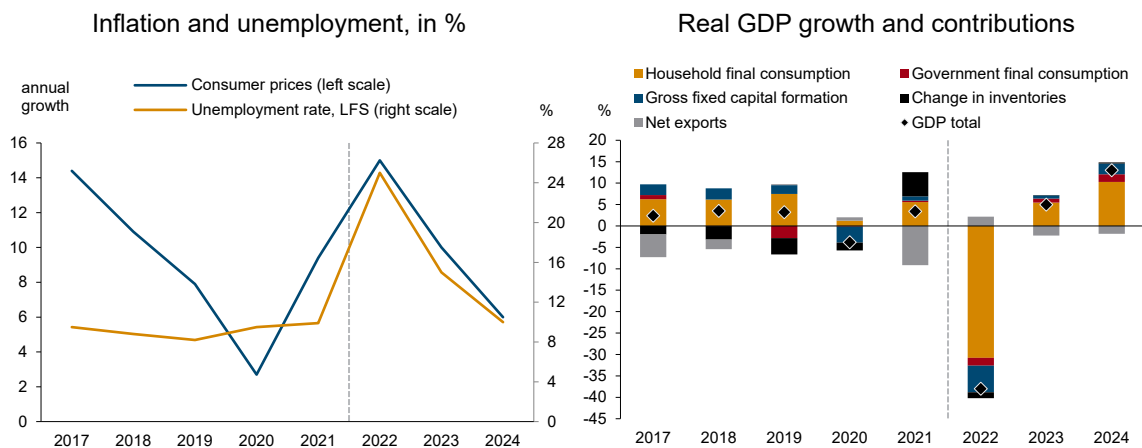


## UKRAINE: Losses from the war are mounting

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The war has caused Ukraine significant economic and humanitarian losses. Economic activity has practically ceased in those regions where military operations are under way, and more than a quarter of the population has been displaced. We expect a gradual recovery of Ukraine's economy in 2023, but there is practically no chance of the recovery being even remotely V-shaped. GDP growth will accelerate in 2024, provided financial support is forthcoming from the West in the shape of a Marshall Plan-type reconstruction fund.

Figure 4.23 / Ukraine: Main macroeconomic indicators



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

**The economy of Ukraine has been severely affected by the Russian invasion.** Indiscriminate bombardment by the Russian army has led to the destruction of much of the infrastructure and many buildings in several regions of Ukraine. According to the Kyiv School of Economics, as of 1 April the damage caused to Ukraine's infrastructure by the war was at least USD 68.2bn;<sup>43</sup> but the final figure will certainly be much higher than that. According to Ukrainian government calculations, the cost of the damage to the property of households and firms, taken together with the lost economic activity, raises the current estimated total figure to USD 565bn.<sup>44</sup>

<sup>43</sup> At least 411 educational institutions, 36 healthcare facilities, 1,600 residential buildings, 26 factories, 6 thermal power plants/hydroelectric power plants, more than 23,000 km of roads, 5,000 km of railways, 15 airports and 350 bridges and overpasses had been damaged.

<sup>44</sup> <https://www.me.gov.ua/News/Detail?lang=uk-UA&id=f951df0a-e65c-4b0e-871f-9bf1a857fe57&title=UkrainaZaznala564-9-MiliardivDolarivVtratVidRosiiskogoVtorgnennia>

**In those regions that are the scene of military operations, economic activity has practically ceased** – apart from the routine maintenance of public utilities, basic retail trade and medical services (where possible). According to a survey conducted by the European Business Association in Ukraine on 14 March, 42% of small and medium-sized enterprises (SMEs) had completely ceased operations.<sup>45</sup> According to another survey conducted by the Association at the end of March,<sup>46</sup> the biggest problems for business are logistical and supply-chain issues, the low purchasing power of the population and corporate clients, damaged production facilities and lack of financial resources.

**Ukraine has lost the ability to sell more than half of its exports, primarily agricultural commodities and metals**, since the Black Sea ports in the south of the country have been brought to a virtual standstill by the Russian assault. Merchandise exports accounted for more than a third of the country's GDP in 2021. According to the Ministry of Economy of Ukraine, in March 2022, exports of goods declined by 44% year on year, as efforts to establish alternative overland export routes have been hampered by logistical challenges, such as a shortage of railway freight wagons and staff, and the destruction of grain storage facilities, railway lines and stations. Arable land is being contaminated with landmines and metallurgical plants are being damaged by the Russian army, so that will also contribute to a significant decline in both output and exports this year.

**The war has furthermore led to a massive deterioration in the humanitarian situation in Ukraine.** According to the UN Refugee Agency (UNHCR), by 7 April more than 10.5m Ukrainians (about a quarter of the population) had been displaced. Of those, more than 4.3m had fled abroad, mainly women and children. The displaced population is likely to increase even more as people leave the regions in the east of the country in the face of an intensification of the fighting there. According to a representative survey conducted in Ukraine by Info Sapiens during 24-28 March,<sup>47</sup> unemployment in the country has reached 29%. Of those who have not lost their jobs, only 37% received their March salary in full, while 26% did not receive any salary at all. Predictably, private consumption has suffered a sharp contraction. Available estimates of merchandise imports in March (which reflect both consumer and investment dynamics) show a 69% decrease compared to the same month in 2021.

**The economy has so far shown remarkable resilience in terms of its macro-financial stability.** The government has reassured foreign investors that it does not plan to default on its debt. The banking system remains stable and liquid; nearly all banks have offered their customers credit repayment holidays. Additionally, the government has introduced a programme of zero-interest loans for farmers and 5% interest loans for retail trade companies. The exchange rate of the national currency has been fixed in accordance with martial law at UAH 29.25 to the US dollar. The National Bank of Ukraine is allowing banks to purchase foreign currency and make transfers from Ukraine, so that residents can carry out transactions to buy essential imports. The government has introduced price controls on key food categories for the duration of the war.

**In future, however, the inflow of money into accounts is likely to decline, as many companies cease operating.** Further down the line, banks will face substantial losses as a result of the damage caused to their physical assets and the likely defaults on many loans, which will wipe out much of the banks' capital.

<sup>45</sup> <https://eba.com.ua/en/finansovi-rezervy-chverti-predstavnykiv-malogo-biznesu-vzhe-vycherpani/>

<sup>46</sup> <https://eba.com.ua/vtraty-biznesu-za-misyats-vijny/?fbclid=IwAR1yvu8yLY-iEhn5NtPaP70i5vv7ycRtPNCpyf9k4-EBEX5djGZgfvRbDek>

<sup>47</sup> <https://sapiens.com.ua/ua/publication-single-page?id=214>

**Other measures introduced by the government to support the economy include a tax reform.** VAT and income tax have been replaced for the duration of the war by a 2% turnover tax, and SMEs are allowed to decide for themselves whether to pay tax (a simplified flat tax). The self-employed, individual entrepreneurs and farmers have been exempted from social contributions. Excise tax on fuel has been set at 0% until martial law is lifted. For people who lose their jobs because of the war, a monthly allowance of UAH 6,500 (about USD 220) will be provided.

**After an unsuccessful attempt to capture the northern regions of Ukraine, Russia is moving its forces to the east.** According to NATO Secretary General Jens Stoltenberg, a major offensive is expected there. He envisages that it may last 'for a long time, for many months, for even years'.<sup>48</sup> The regions of eastern and southern Ukraine that are currently under attack (Donetsk, Dnipropetrovsk, Kharkiv, Kherson, Luhansk, Mykolayiv, Odesa and Zaporizhzhya) together account for about 40% of GDP, 55% of industrial production, 34% of agricultural production and 43% of merchandise exports.

**Based on the experiences of the government-controlled areas in the Donbas region, we can expect economies in the regions under attack to undergo a deep recession** this and next year. Moreover, they will be unable to recover within the forecast period, due to the remaining high risks for economic activity. The government-controlled parts of Donetsk and Luhansk regions lost 59% and 68%, respectively, of their gross regional product during 2014-2015; and in the period 2016-2019, the economies there stagnated.

**Because of the war, in 2022 we will see the sharpest economic contraction for 30 years.** We estimate that real GDP will decline by 38% this year; however, that forecast is subject to an unusually high level of uncertainty, since the lack of current statistical data – and indeed the lack of any clarity about the duration and scale of the war – significantly complicates economic forecasting for Ukraine.

**We expect Ukraine's economy to start to recover in 2023, but real growth will be sluggish (only about 5%); GDP growth will accelerate in 2024 (to 13%), provided there is Western financial support** in the form of a Marshall Plan-type reconstruction fund. It will not really be possible for the country to receive reparations from Russia during the forecast period, as the Kremlin is unlikely to agree to pay; and using the frozen assets of the Central Bank of Russia and of Russian oligarchs to that end would require lengthy legal proceedings in international courts. Corruption and a lack of skilled personnel are likely to limit the capacity to absorb money from the Marshall Plan-type reconstruction fund. More rapid economic growth would be possible if the war with Russia were to end sooner than currently expected (and with a victory for Ukraine).

**We expect the gradual return of refugees to start as early as this year.** According to the survey by Info Sapiens,<sup>49</sup> 88% of those people who fled abroad are planning to come back to Ukraine. Private consumption will again be a driving force for economic growth in 2023-2024. We expect investment growth to outpace the rise in household consumption in 2024 as the reconstruction fund money becomes available.

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<sup>48</sup> [https://www.nato.int/cps/en/natohq/opinions\\_194326.htm](https://www.nato.int/cps/en/natohq/opinions_194326.htm)

<sup>49</sup> [https://sapiens.com.ua/ua/publication-single-page?id=216&fbclid=IwAR2A8-4lawHh\\_c3Faz6lLzXBFIs2OI0sTeepwBUB9u-gZRfyu0Cs8UfWqW0](https://sapiens.com.ua/ua/publication-single-page?id=216&fbclid=IwAR2A8-4lawHh_c3Faz6lLzXBFIs2OI0sTeepwBUB9u-gZRfyu0Cs8UfWqW0)

**Table 4.23 / Ukraine: Selected economic indicators**

	2018	2019	2020	2021 <sup>1)</sup>	2022	2023	2024
					Forecast		
Population, th pers., average	42,270	42,028	41,745	41,378	37,000	38,000	39,000
Gross domestic product, UAH bn, nom.	3,560	3,977	4,222	5,460	3,900	4,500	5,400
annual change in % (real)	3.5	3.2	-3.8	3.4	-38.0	5.0	13.0
GDP/capita (EUR at PPP)	8,570	9,080	8,790	9,390	.	.	.
Consumption of households, UAH bn, nom.	2,439	2,918	3,054	3,736	.	.	.
annual change in % (real)	9.3	10.9	1.7	7.7	-45.0	8.0	15.0
Gross fixed capital form., UAH bn, nom.	628	701	564	679	.	.	.
annual change in % (real)	16.6	11.7	-21.3	7.5	-50.0	6.0	20.0
Gross industrial production							
annual change in % (real)	3.0	-0.5	-4.5	1.9	-40.0	10.0	15.0
Gross agricultural production							
annual change in % (real)	8.2	1.4	-10.1	14.4	.	.	.
Construction output							
annual change in % (real)	8.6	23.6	5.6	6.8	.	.	.
Employed persons, LFS, th, average	16,361	16,578	15,915	15,610	13,000	13,500	14,500
annual change in %	1.3	1.3	-4.0	-1.9	-16.7	3.8	7.4
Unemployed persons, LFS, th, average	1,579	1,488	1,674	1,712	4,330	2,380	1,610
Unemployment rate, LFS, in %, average	8.8	8.2	9.5	9.9	25.0	15.0	10
Reg. unemployment rate, in %, eop <sup>2)</sup>	1.3	1.3	1.7	1.1	.	.	.
Average monthly gross wages, UAH <sup>3)</sup>	8,865	10,497	11,591	14,014	9,700	11,700	14,300
annual change in % (real, gross)	12.5	9.7	7.5	10.5	-40.0	10.0	15.0
Consumer prices, % p.a.	10.9	7.9	2.7	9.4	15.0	10.0	6.0
Producer prices in industry, % p.a.	17.4	4.1	-1.6	40.8	15.0	8.0	5.0
General governm. budget, nat. def., % of GDP							
Revenues	33.3	32.4	32.6	30.4	15.0	23.0	26.0
Expenditures	35.2	34.6	37.9	33.9	40.0	38.0	34.0
Deficit (-) / surplus (+)	-1.9	-2.2	-5.3	-3.4	-25.0	-15.0	-8.0
General gov. gross debt, nat. def., % of GDP	60.9	50.2	60.4	46.7	90.0	85.0	75.0
Stock of loans of non-fin. private sector, % p.a.	5.6	-9.8	-2.8	8.2	.	.	.
Non-performing loans (NPL), in %, eop	52.8	48.4	41.0	30.0	.	.	.
Central bank policy rate, % p.a., eop <sup>4)</sup>	18.00	13.50	6.00	9.00	12.0	10.0	8.0
Current account, EUR m <sup>5)</sup>	-5,443	-3,682	4,612	-2,229	1,600	1,700	300
Current account, % of GDP	-4.9	-2.7	3.4	-1.3	1.4	1.4	0.2
Exports of goods, BOP, EUR m <sup>5)</sup>	36,677	41,146	39,527	53,316	31,000	33,500	38,500
annual change in %	4.2	12.2	-3.9	34.9	-41.9	8.1	14.9
Imports of goods, BOP, EUR m <sup>5)</sup>	47,436	53,877	45,462	58,858	31,200	37,400	46,600
annual change in %	8.4	13.6	-15.6	29.5	-47.0	19.9	24.6
Exports of services, BOP, EUR m <sup>5)</sup>	13,401	15,591	13,628	15,735	11,700	12,800	15,400
annual change in %	6.1	16.3	-12.6	15.5	-25.6	9.4	20.3
Imports of services, BOP, EUR m <sup>5)</sup>	12,270	14,029	9,775	12,112	9,000	10,300	12,400
annual change in %	3.9	14.3	-30.3	23.9	-25.7	14.4	20.4
FDI liabilities, EUR m <sup>5)</sup>	4,210	5,174	266	6,066	.	.	.
FDI assets, EUR m <sup>5)</sup>	98	554	317	368	.	.	.
Gross reserves of CB excl. gold, EUR m <sup>5)</sup>	15,955	21,590	22,422	25,920	.	.	.
Gross external debt, EUR m <sup>5)</sup>	92,352	109,134	102,293	114,424	130,000	121,000	107,000
Gross external debt, % of GDP	83.4	79.4	74.6	67.7	110.0	96.0	76.0
Average exchange rate UAH/EUR	32.14	28.95	30.79	32.31	33.0	35.8	38.1

Note: Excluding the occupied territories of Crimea and Sevastopol and with the exception of the population, excluding the temporarily occupied territories in the Donetsk and Luhansk regions. Due to the war in Ukraine, 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 and wiiw estimates. - 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.