UKRAINE

Table 1	2023
GDP, current US$ billion	178.8
International poverty rate ($2.15)[a]	0.0
Lower middle-income poverty rate ($3.65)[a]	0.2
Upper middle-income poverty rate ($6.85)[a]	7.1
Gini index[a]	25.6
School enrollment, primary (% gross)[b]	92.8
Life expectancy at birth, years[b]	68.6
Total GHG emissions (mtCO2e)	156.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ 2020 value, 2017 PPPs.
b/ Most recent WDI value (2022).

Ukraine's situation remains challenging, even though the economy continues to prove resilient and has narrowed the output gap. Reforms and close coordination with international partners have mitigated some of the adverse impacts on growth potential and helped meet fiscal needs, but war-related risks and uncertainty about continued external assistance remain significant. While social assistance has helped mitigate some poverty impacts, the extended duration of the war is increasing the toll on households.

Key conditions and challenges

Two and half years after Russia's invasion, Ukraine's economy remains shaped by active hostilities, which impact production factors and critical inputs. Concurrently, the policy framework has shifted from an exclusive focus on stability towards an attempt to close the output gap and enhance growth potential while balancing macro accounts.

Since February 2022, aid inflows have helped Ukraine manage imbalances and provide social support, while a restrictive monetary policy contributed to exchange rate stability and the mitigation of inflationary pressure. More recently, growth has picked up, as the private sector activity benefited from an exceptional harvest, targeted investments to re-open maritime export routes, and the restoration of energy capacity. Increased exchange rate flexibility has also helped competitiveness. These factors, combined with continued high government consumption, resulted in higher-than-expected growth in 2023 that has proven resilient to renewed attacks. They have, however, also augmented price pressure from steep increases in electricity tariffs to result in increased inflation.

The economy's potential is expected to start benefiting from structural reforms. The opening of accession negotiations with the European Union (EU) in June 2024, combined with the implementation of the Ukraine Plan under the EU's financing facility, has provided an important anchor for EU alignment. The IMF's Extended Fund Facility program remains on-track and acts as a stability anchor and catalyzer for budgetary assistance. The authorities' "reform matrix" provides a transparent tool to monitor reform implementation.

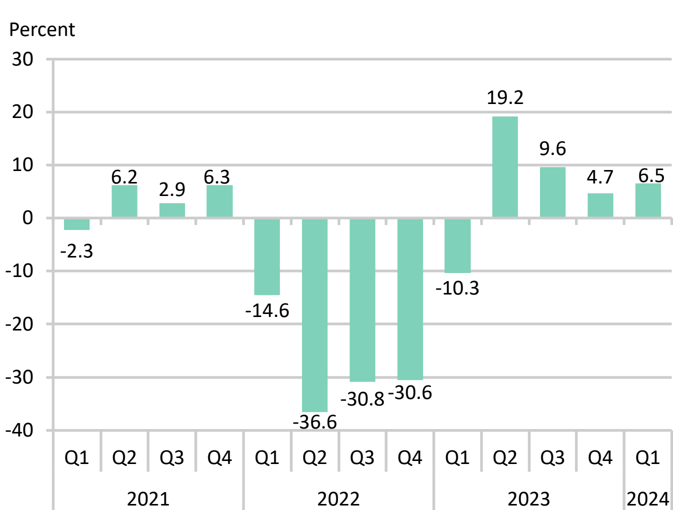
Looking ahead, an extended war that is now expected to last well into 2025 could exacerbate existing challenges: balancing growing military expenditure and decreasing external assistance flows with an increase in domestic revenue mobilization and maintaining the economy's growth momentum, boosting external competitiveness, and controlling inflation. Addressing these challenges requires well-targeted policies, including efficiency-enhancing tax policy reforms and the effective use of foreign exchange reserves to aid reconstruction and recovery.

Recent developments

GDP growth has proven resilient, reaching 6.5 percent in Q1-2024. High frequency indicators point to continued resilience from Q2 onwards, supported by a further recovery in sectors oriented towards domestic demand and strong exports. However, confidence and industrial output is hampered by attacks on Ukraine's electricity infrastructure.

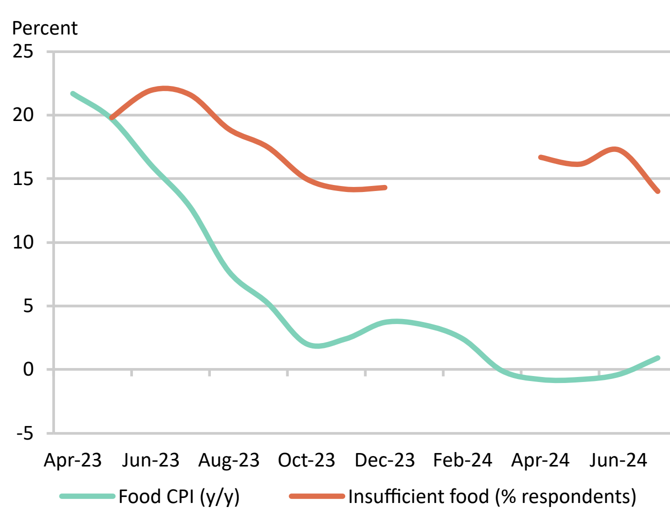
After dropping to a low of 3.2 percent in April, inflation has started to increase and stood at 5.4 percent in July. This was driven by supply-side factors, especially increases in energy tariffs, and augmented

FIGURE 1 Ukraine / Quarterly GDP growth, year-over-year



Source: Ukraine Statistics Office.

FIGURE 2 Ukraine / Food inflation and food insecurity



Source: State Statistics Service of Ukraine.

by a loser monetary policy and gradual exchange rate devaluation on the demand side. Strong agricultural output kept food inflation in check. Banks continue to be profitable and stable.

The current account deficit increased from US$2.7bn in the period from January to July 2023 to US$10.8bn in the same period in 2024 because of declining grant receipts, whereas a US$1.5 bn trade deficit reduction resulting from increased maritime exports and diminished imports due to land border blockades, provided relief. Reserves stood at USD 37.2 billion on August 1.

Following the approval of external assistance from Ukraine's international partners, the fiscal gap for 2024 has been closed since March. While higher defense expenditures require a budget amendment that is under preparation, the associated fiscal needs are expected to be met from domestic sources. A restructuring of external commercial debt has been completed and will generate fiscal savings of US$11 billion over the next three years.

Poverty (measured by national standards) was estimated to have increased by 1.8 million in 2023 due to reduced employment and incomes. Despite labor market slowdowns, social assistance programs mitigated poverty, as 20 percent of households received conflict-related support. The situation remains challenging: in Q3 2024, only 40 percent of adults were employed, and over half of households reported worse financial well-being compared to February 2023.

Outlook

Ukraine's economic outlook is conditional on the timing and quantity of external assistance receipts and the duration of Russia's invasion. For 2024, growth is projected at 3.2 percent, which balances tailwinds resulting from positive trade, harvest, and industrial output indicators with the adverse impacts of lower energy capacity—and associated power outages—especially during the winter months and the impact of continued attacks.Under an indicative scenario which assumes that active hostilities will continue throughout 2025, growth is expected to decelerate to 2 percent in 2025 as the output gap is closed and input constraints start to bind. Starting from 2026, Ukraine's economic growth will accelerate to 7 percent under the baseline assumption as consumption and reconstruction investment support the demand side. Inflation is expected to pick up in 2024 and remain in the high single digits throughout 2025 on the back of looser monetary policy. Improved GDP and private consumption growth in 2025 may point to more economic stability for households.

The current account deficit is projected at 6.1 percent of GDP in 2024 and expected to widen in 2025 due to higher imports and a reduction in grants. After the war the trade deficit is expected to remain elevated due to reconstruction needs. The fiscal deficit (excluding grants) is expected to remain high until end-2025 at above 20 percent of GDP before declining to around 11.4 percent in 2026.

This scenario is subject to exceptionally high downside risks due to the vulnerability of Ukraine's economic trajectory to external financing shortfalls and the possible prolongation of the active hostilities beyond 2025. Should downside risks materialize, a more stringent macroeconomic adjustment could become necessary, with tradeoffs on household welfare whose loses had so far been mitigated by fiscal measures.

TABLE 2 Ukraine / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	3.4	-28.8	5.3	3.2	2.0	7.0
Private consumption	6.9	-27.9	6.2	2.7	4.3	6.5
Government consumption	0.8	31.4	9.0	3.0	0.5	-4.3
Gross fixed capital investment	9.1	-33.9	52.9	15.0	11.7	26.7
Exports, goods and services	-8.6	-42.0	-5.4	7.2	4.9	8.6
Imports, goods and services	14.2	-17.4	8.5	9.1	9.8	11.3
Real GDP growth, at constant factor prices	3.5	-28.8	5.3	3.2	2.0	7.0
Agriculture	14.4	-25.2	7.6	-6.0	-3.0	5.0
Industry	7.2	-42.7	4.7	5.0	3.5	10.0
Services	0.5	-24.7	5.0	4.4	2.5	6.5
Inflation (consumer price index)	9.4	20.2	12.9	5.8	8.6	7.5
Current account balance (% of GDP)	-1.9	5.1	-5.4	-6.1	-6.9	-7.9
Net foreign direct investment inflow (% of GDP)	3.8	0.1	2.6	1.9	2.0	4.0
Fiscal balance (% of GDP)[a]	-4.0	-15.6	-19.6	-22.0	-20.2	-11.4
Revenues (% of GDP)	36.5	49.8	54.8	43.0	41.5	39.4
Debt (% of GDP)	49.0	77.8	84.4	90.1	94.1	89.1
Primary balance (% of GDP)[a]	-1.2	-12.5	-15.7	-17.6	-16.4	-8.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	..	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	..	0.5	0.2	0.2	0.1	0.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	..	10.5	8.3	8.4	6.7	5.6
GHG emissions growth (mtCO2e)	-0.4	-28.4	-1.8	-3.7	-1.1	0.4
Energy related GHG emissions (% of total)	72.7	66.5	68.2	68.8	69.0	68.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Fiscal Balance and Primary Balance are excluding grants in 2022-2026.
b/ Calculations based on ECAPOV harmonization, using 2020-HLCS.
c/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on private consumption per capita in constant LCU. Actual data: 2020. Nowcast: 2021-2023. Forecasts are from 2024 to 2026.