

# ECONOMIC DEVELOPMENT OF UKRAINE IN 2022-2023

## UKRAINE'S ECONOMY IN 2022-2023

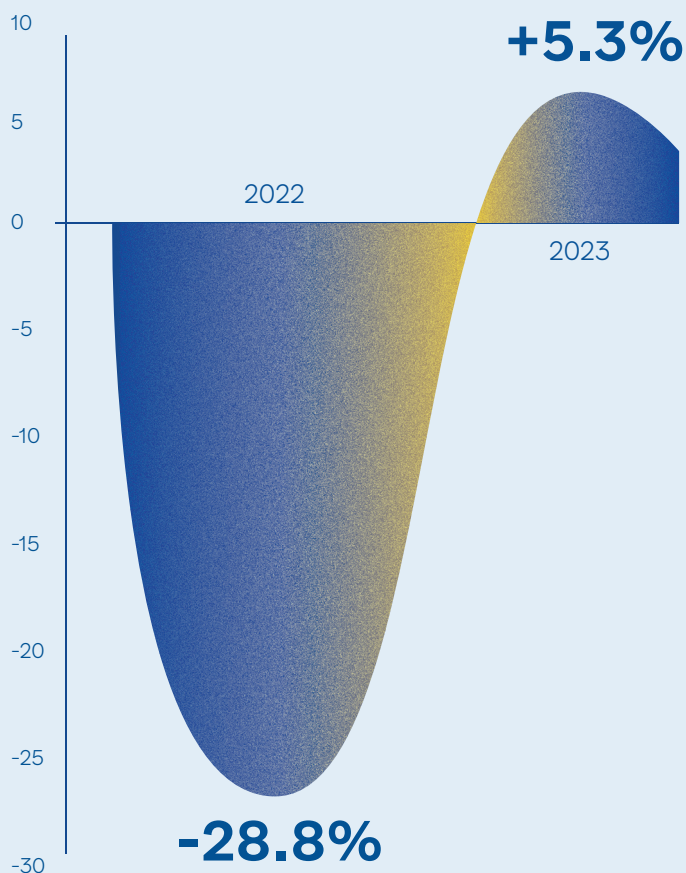
**Ukraine's economy withstood the war and transitioned to growth in 2023:**

Due to Russia's unprovoked aggression, Ukraine's GDP contracted by 28.8% in 2022, the largest in its history. However, the economy showed remarkable resilience, achieving a 5.3% GDP growth in 2023. This recovery was driven by balanced policies, including suspending burdensome regulations, relocating businesses to safe areas, and investing in energy equipment.

The 2022 decline was mainly due to the destruction of production capacities and infrastructure, occupation by Russian forces, and significant logistical disruptions. The resilience of Ukraine's economy is evident in GDP growth over the 2023. This growth was supported by stabilising the energy supply, favourable weather, and restored electricity imports. Stable inflation and devaluation expectations led to a 7.2% increase in household consumption. Significant investments in defence, infrastructure restoration, and entrepreneurial ventures boosted gross fixed capital formation by 52.9%.

However, the 8.5% increase in imports of goods and services, driven by rising consumer and investment demand, along with the 5.4% decrease in exports, negatively impacted GDP.

year-on-year GDP evolution, %

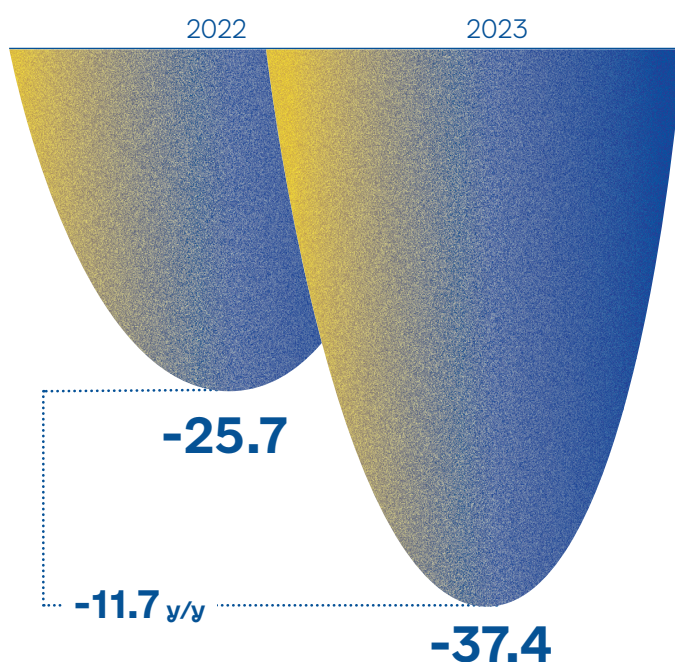


## Trade Balance

Amid significant obstacles to exports and rising import needs for defence, military, enterprise activities, and energy security, Ukraine's negative trade balance significantly increased in 2022. The trade deficit in goods and services nearly tenfold compared to 2021, reaching USD 25.7 billion. The goods trade deficit grew by 2.2 times to USD 14.7 billion, while Ukraine ceased being a net exporter of services, resulting in a service trade deficit of almost USD 11.1 billion due to a sharp increase in imports.

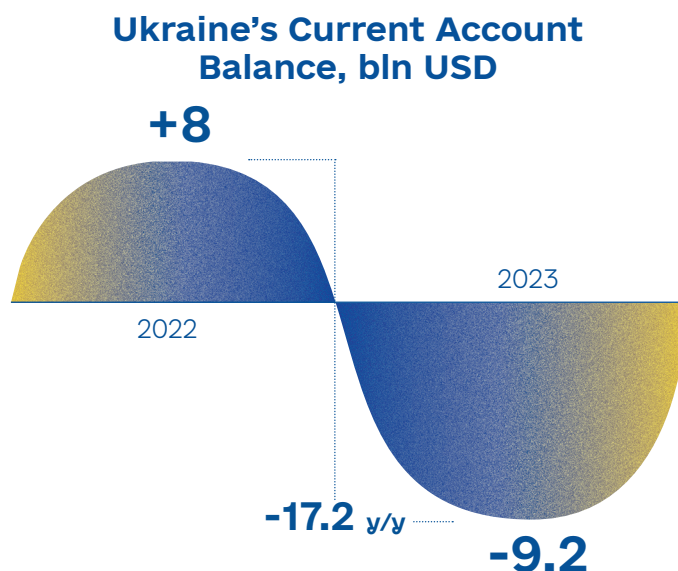
In 2023, the negative trade balance deepened further due to Russian aggression, reaching a record USD 37.4 billion, a 45% increase from 2022. The goods trade deficit doubled to USD 28.8 billion, driven by logistics issues limiting exports and increased import needs for defence. The goods trade deficit accounted for over three-quarters of the total trade deficit. Additionally, the services trade deficit remained significant at USD 8.6 billion, although it decreased by USD 2.5 billion from 2022, mainly due to reduced travel service imports as Ukrainian refugees' residency statuses changed abroad.

Ukraine's Trade Balance, bln USD



## Current Account Balance:

In 2022, the negative balance of trade in goods and services was offset by a significant decrease in income from investments and only a slight decrease in the volume of private remittances to Ukraine, as well as by the receipt of grants and humanitarian aid provided to Ukraine by international partners. As a result, the current account balance in 2022 was positive, amounting to nearly USD 8 billion. However, in 2023, the deficit in foreign trade in goods and services was only partially offset by the inflow of funds from abroad. Against the backdrop of continued gradual reduction in the volume of private remittances and increased payments for investment income, the volumes of grants and humanitarian aid from international partners also decreased. This led to an increase in the deficit of the current account to USD 9.2 billion.



## Foreign Direct Investment (FDI)

The aggression of Russia led to a halt in the inflow of foreign investments into Ukraine. However, by 2023, foreign investors began to resume their activities in Ukraine, with nearly USD 4.3 billion of FDI injected into the Ukrainian economy. A significant portion of these investments came from foreign investors who were already operating in the Ukrainian market. For example, Laude Group of Companies, a Polish logistics operator, announced in August that it had transferred €100 million to Ukraine<sup>1</sup>. In April, Bayer announced that it intended to invest €60 million in a corn seed production plant<sup>2</sup>. At the same time, there is also a gradual resurgence in attracting new foreign investors, who invested nearly USD 0.7 billion.

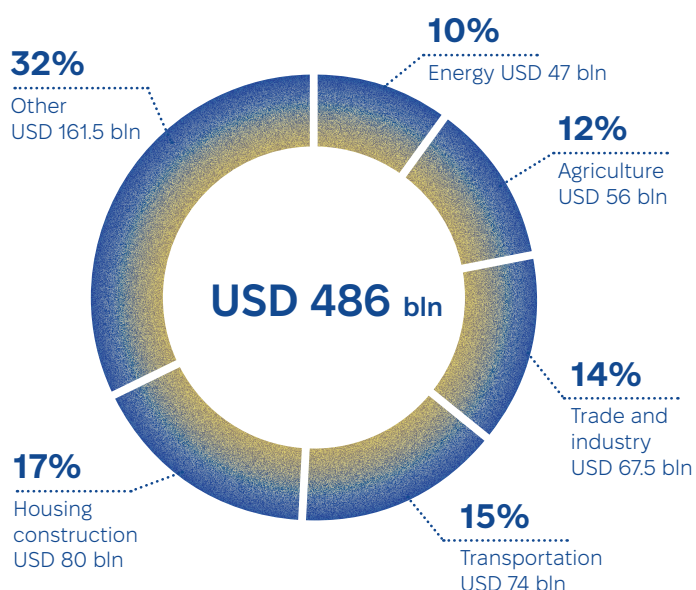


## Assessment of Damages from Russian Aggression

Ukraine has suffered immense damages and losses as a result of Russia's full-scale aggression. As of the beginning of 2024, according to World Bank estimates, the damage inflicted on buildings and infrastructure is estimated at USD 152.5 billion. The most affected sectors include housing and utilities, transportation, trade and industry, energy, and agriculture. The greatest destruction is concentrated in the Donetsk, Kharkiv, Luhansk, Zaporizhzhia, Kherson, and Kyiv regions. The overall economic losses, taking into account disruptions in economic flows and production, as well as additional costs associated with the war (such as debris removal), are estimated at over USD 499 billion.

Reconstruction and recovery needs create a huge market for Ukraine's Recovery, which is estimated at over USD 486 billion. Of them, about USD 278 billion are reconstruction needs, the other USD 208 billion are recovery (production/service restoration) needs. The largest needs are in housing (over USD 80 billion, or 17% of the total), transportation infrastructure

(almost USD 74 billion, or 15%), industry, construction, services and commerce (USD 67.5 billion, or 14%), agriculture (USD 56 billion, or 12%), and energy (USD 47 billion, or 10%, as of today, it is significantly higher).



<sup>1</sup> - <https://ukraineinvest.gov.ua/en/news/16-08-2023/>

<sup>2</sup> - [bit.ly/4aRoi6Y](https://bit.ly/4aRoi6Y)

**Table 1. Damages, losses and needs**

	Damage	Loss	Needs
<b>SOCIAL SECTORS</b>	<b>66.6</b>	<b>71.2</b>	<b>161.8</b>
Housing	55.9	17.4	80.3
Education and science	5.6	6.9	13.9
Health	1.4	17.8	14.2
Social protection and livelihoods	0.2	9.5	44.5
Culture and tourism	3.5	19.6	8.9
<b>INFRASTRUCTURE SECTORS</b>	<b>55.2</b>	<b>115.4</b>	<b>148.0</b>
Energy and extractives	10.6	54.0	47.1
Transport	33.6	40.7	73.7
Telecom and digital	2.1	2.3	4.7
Water supply and sanitation	4.0	11.6	11.1
Municipal services	4.9	6.8	11.4
<b>PRODUCTIVE SECTORS</b>	<b>26.6</b>	<b>249.4</b>	<b>136.6</b>
Agro	10.3	69.8	56.1
Industry and commerce	15.6	173.2	67.5
Irrigation and water resource management	0.7	0.7	10.7
Finance	0.0	5.7	2.3
<b>CROSS-CUTTING SECTORS</b>	<b>4.0</b>	<b>63.3</b>	<b>39.9</b>
Environment, natural resource management, and forestry	3.3	26.5	2.3
Emergency response and civil protection	0.4	0.5	2.3
Governances and public administration	0.3	1.7	0.7
Explosive hazard management	–	34.6	34.6
<b>ALL</b>	<b>152.5</b>	<b>499.3</b>	<b>486.2</b>

## MACRO “WINS”

### IMF Financing

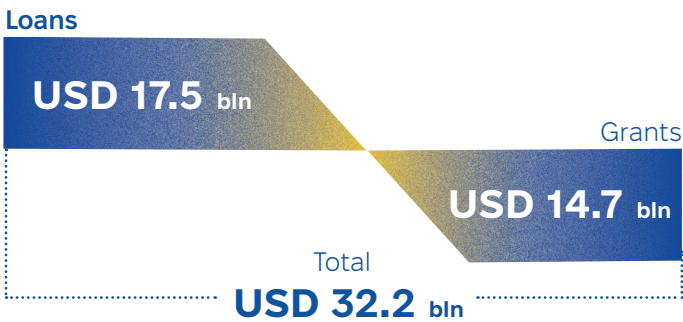
On March 31, 2023, the IMF approved a four-year Extended Fund Facility (EFF) program amounting to SDR 11.6 billion (USD 15.6 billion). The EFF program is part of a four-year financial support package totalling USD 122 billion under the baseline scenario and USD 140 billion under the deteriorated scenario



### Budget Deficit Support

In 2022, Ukraine received USD 32.2 billion in external budget support, of which USD 14.7 billion, or 45.8%, was granted, and the rest were loans provided on very favourable terms. This allowed the year to end with a State Budget deficit of USD 28.3 billion, as compared to USD 43.1 billion excluding grant funding.

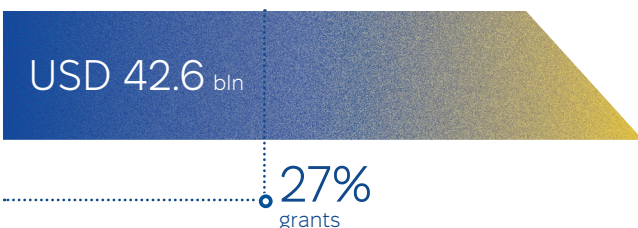
#### External budget support, 2022



### Revenues

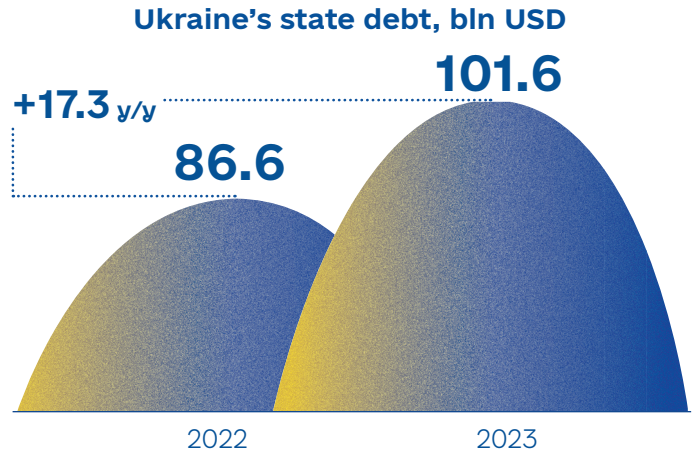
The dynamics of revenue execution of the state budget in 2023 significantly improved due to higher tax collections in response to the recovery of economic activity and several one-time receipts (for example, a transfer from the National Bank of Ukraine amounting to USD 2 billion). Total revenues of the State Budget reached USD 73.1 billion, which is 49.5% more than in 2022. In 2023, the state budget received USD 42.6 billion from foreign partners and IFIs, of which 27% were granted.

#### Ukraine's state budget received from foreign partners and IFIs in 2023



### Debt

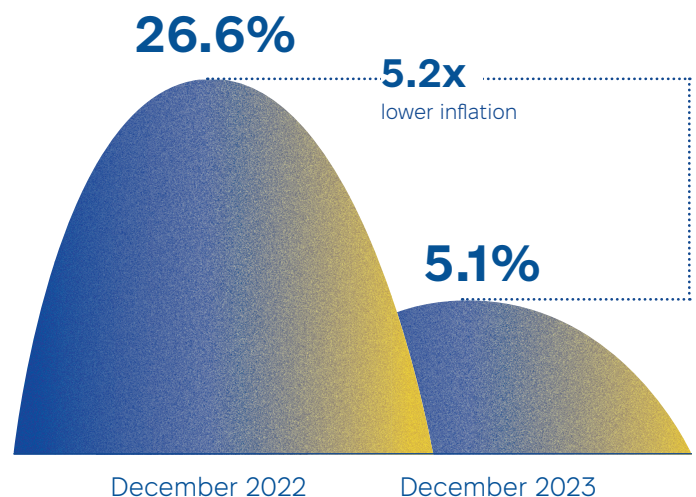
Ukraine's state debt in 2023 increased moderately by 17.3% in dollar terms compared to the previous year, reaching USD 101.6 billion, thanks to grant financing from foreign partners. However, this debt growth, as before, is driven by the provision of loans on very favourable terms, with long repayment terms and low or subsidised interest rates, meaning they will not overly burden Ukraine's financing needs in the coming years



### Inflation

In December 2023, the consumer price index dropped to 5.1%, compared to 26.6% at the end of 2022. Several factors contributed to the consecutive slowdown in inflation. Firstly, restrained demand persisted amid the ongoing war. Secondly, the relative stability of the exchange rate despite the transition from a fixed regime to a managed float helped alleviate inflationary pressure. Thirdly, the easing of price pressure on the population was achieved by maintaining stability in the majority of utility tariffs. Moreover, the decline in global energy prices further contributed to easing inflationary pressure. Simultaneously, the stabilisation of the centralised electricity supply since mid-February allowed for reduced electricity costs due to the less intensive use of autonomous generators. Among other disinflationary factors were the stabilisation of inflation and devaluation expectations, as well as record harvests of certain crops.

#### Inflation in Ukraine



**Table 2. Key macroeconomic indicators of Ukraine's development in 2020-2023**

	2020	2021	2022	2023
<b>GROSS DOMESTIC PRODUCT</b>				
Nominal, USD billion	156.6	199.8	162.0	178.8
% to the previous year	96.2	103.4	71.2	105.3
<b>GDP deflator, %</b>	110.3	124.8	134.3	118.5
<b>CONSUMER PRICE INDEX</b>				
On average to the previous year, %	102.7	109.4	120.2	112.9
December to December of the previous year, %	105.0	110.0	126.6	105.1
<b>PRODUCER PRICE INDEX</b>				
On average to the previous year, %	98.4	140.8	147.3	124.2
December to December of the previous year, %	114.5	162.2	138.2	116.2
<b>AVERAGE MONTHLY SALARY OF EMPLOYEES, GROSS</b>				
Nominal, USD	430	513.6	459.1	476.9
<b>Labour force</b> aged 15-70, million people	17.6	17.3	15.23	15.13
<b>Number of people engaged in economic activity</b> aged 15-70, million people	15.9	15.6	12.43	12.23
<b>Unemployment rate of the population aged 15-70</b> according to the International Labour Organization methodology, % of the labour force of the respective age group	9.5	9.9	18.43	18.93
<b>Current account balance</b> , USD million	-5,267	-3,882	-7,972	-9,209
<b>Balance of goods and services</b> (according to the balance of payments methodology), USD million	-2,378	-2,671	-25,737	-37,395
Balance of goods and services, % of GDP	-1.5	-1.4	-16.3	-21.0
<b>Exports of goods and services</b> (according to the balance of payments methodology), USD million	60,707	81,504	57,517	51,093
Exports of goods and services, % to the previous year	95.5	134.3	70.6	88.8
<b>Imports of goods and services</b> (according to the balance of payments methodology), USD million	63,085	84,175	83,254	88,488
Imports of goods and services, % to the previous year	82.9	133.4	98.9	106.3
<b>Foreign direct investment inflow</b> , USD million	304	7,954	247	4,334

<sup>4</sup> According to the Ministry of Economy