The World Bank in Ukraine

Country Snapshot

UKRAINE COUNTRY SNAPSHOT

At a Glance

• The COVID-19 pandemic is forcing a sudden slowdown in economic activity. The response in Ukraine will require public health interventions, social assistance for vulnerable households, and economic reforms to mobilize adequate international financing and support growth once the crisis subsides.

• A contraction of 3.5 percent in 2020 is projected under a scenario in which the pandemic is contained in the second half of the year, but uncertainty is high.

• A weakening appetite for reforms and the imprudent use of limited fiscal space are key domestic policy risks.

Country Context

Ukraine has experienced acute political, security, and economic challenges during the past six years. Since the “Maidan” uprising in February 2014, the country has witnessed several momentous events, including the outbreak of conflict in eastern Ukraine and the annexation of Crimea.

From 2014 until 2019, the Government undertook key reforms, including: carrying out significant fiscal consolidation, moving to a flexible exchange rate, reforming energy tariffs and social assistance, enhancing the transparency of public procurement, simplifying business regulations, stabilizing and restructuring the banking sector, moving forward on health and pension reforms, and establishing anti-corruption agencies.

At the same time, people became disillusioned by the lack of meaningful progress in some of the very areas that brought them out into the streets in 2014. Lack of trust in public institutions was the most fundamental. Corruption remained endemic—from the financial sector to health care—and powerful oligarchs still dominated and “captured” the economy.

Current President Volodymyr Zelenskyy was elected on April 21, 2019, in a runoff election with former President Petro Poroshenko, winning 73 percent of the vote. On July 21, President Zelenskyy’s Servant of the People Party won the parliamentary elections, giving them 60 percent of the seats in the Rada. The resulting Government, which took office in August 2019, and a succeeding government, appointed in March 2020, have both committed to an ambitious and wide-ranging reform agenda.

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<tr>
<th>UKRAINE</th>
<th>2019</th>
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<tbody>
<tr>
<td>Population, million</td>
<td>42.0</td>
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<tr>
<td>GDP, current US$ billion</td>
<td>153.2</td>
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<tr>
<td>GDP per capita, current US$</td>
<td>3,649</td>
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<tr>
<td>Life Expectancy at birth, years (2015)</td>
<td>71.2</td>
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The World Bank and Ukraine

Ukraine joined the World Bank in 1992. Over the 27 years of cooperation, the Bank’s commitments to the country have totaled close to US$14 billion in over 70 projects and programs.

The World Bank and Ukrainian authorities are implementing a Country Partnership Framework (CPF) for Ukraine for FY2017–21 that supports the country’s efforts to achieve a lasting economic recovery benefiting the entire population.

The ongoing CPF focuses on ensuring that markets work more effectively, establishing the necessary conditions for fiscal and financial stability, and improving service delivery for all Ukrainians.

Key Engagement

In the past five years, the Bank has supported the people of Ukraine through two series of Development Policy Loans (DPLs), several new investment operations, a Program for Results operation to support the agriculture sector, and two guarantees amounting to approximately US$6 billion aimed at improving critical public services, supporting reforms, and bolstering the private sector.

Reform measures aided by the Bank’s policy support operations have promoted good governance, transparency, and accountability in the public sector, as well as stability in the banking sector; a reduction in the cost of doing business; and the effective use of scarce public resources to provide quality public services at a crucial time.

These operations also support the authorities in continuing to reform an inefficient and inequitable housing subsidy system while protecting the poor from tariff increases by strengthening social assistance.

World Bank investment projects focus on improving basic public services, such as district heating, water and sanitation, health, and social protection, as well as public infrastructure, such as the power transmission networks and national roads.

The Bank is also supporting Ukraine through policy advice and technical assistance on formulating and implementing comprehensive structural reforms.

In addition to financing several ongoing private sector projects, the International Finance Corporation (IFC) is implementing a large advisory program in the country, working to simplify regulations, improve the investment climate and energy efficiency, boost the completeness of local food producers, help open new markets, and increase access to finance.

Recent Economic Developments

Economic growth was solid at 3.2 percent in 2019, led by a good agricultural harvest and sectors dependent on domestic consumption. Household consumption grew by 11.9 percent in 2019, supported by sizable remittance inflows and a resumption of consumer lending, while domestic trade and agriculture grew by 3.4 and 1.3 percent, respectively.

However, manufacturing and investment growth remained weak. Manufacturing contracted by 0.3 percent in the first three quarters of 2019 (compared to 0.6 percent growth in 2018), while fixed investment growth slowed to 12.8 percent (compared to 14.3 percent in 2018).

The economy lost momentum in the fourth quarter of the year, with estimated growth of 1.5

WORLD BANK PORTFOLIO

No. of Projects: 8 IBRD investment operations, plus one PforR
Total Lending: $2.32 billion, including $148 million from the Clean Technology Fund (CTF)
percent year-on-year (y-o-y), and the decline in steel prices contributed to a 5.1 percent (y-o-y) contraction in industrial production.

Fixed investment, at 18 percent of GDP, has been too low for sustained economic growth. Fiscal restraint helped contain the fiscal deficit at 2.1 percent of GDP in 2019 (the fourth year in a row). This, together with currency appreciation, helped lower public debt to 50 percent of GDP in 2019 from 81 percent in 2018.

Prudent macroeconomic management helped reduce inflation and interest rates in 2019. Inflation eased to 4.1 percent at end-2019 and 2.4 percent in February 2020. In turn, the National Bank of Ukraine was able to reduce its key rate by 800 basis points to 10 percent between September 2018 and March 2020, with forward guidance on further reductions in the remaining months of the year.

Real wages increased in 2019 by 10 percent. The unemployment rate decreased to 8.6 percent in the first three quarters of 2019 from 9.1 percent a year ago.

As a result, moderate poverty (the World Bank’s national methodology for Ukraine) declined from a peak of 26.9 percent during the crisis of 2015 to 19.9 percent in 2018 and an estimated 17.8 percent in 2019 but remained above the pre-crisis level of 14.1 percent in 2013.

**Economic Outlook**

The COVID-19 crisis is expected to impact economic activity in Ukraine through several channels in 2020.

First, disposable income and consumption will suffer from the sudden necessary restrictions, including the closure of restaurants, cafes, and shopping/entertainment centers and the halt to air, rail, and bus passenger transport.

Second, lower remittances due to weaker economic activity in Poland and other European Union countries will also adversely affect household consumption.

Third, lower commodity prices will have a negative effect on Ukraine’s exports.

The overall impact on economic activity in 2020 will depend on the duration of the public health crisis, as a more protracted crisis would lead to second-order effects through more widespread layoffs, business closures, and weaker liquidity and asset quality in banks.

A key factor will be the economy’s ability to rebound once the pandemic subsides. This will require swift progress on key pending reforms as well as prudent macroeconomic policy to address critical investment bottlenecks and provide an important signal of the new Government’s reform orientation.

Under a scenario in which the crisis is contained by the second half of the year and key reforms move forward, the economy is projected to contract by 3.5 percent in 2020. Prudent macroeconomic policy will need to be an important pillar of the policy response and will require that spending be prioritized within the limited fiscal space.

However, the fiscal space for a major stimulus is constrained by sizable debt repayments of about 6 percent of GDP per year due in 2020–22.

Revenues are expected to decline significantly, which means that the authorities will need to prioritize spending to create space for critical health and social assistance needs and identify additional financing.

The fiscal deficit is projected to be 5 percent of GDP in 2020, but a prolonged disruption in international capital markets would impact the country’s ability to meet financing needs. As exports, remittances, and capital inflows decline, safeguarding external sustainability will require a flexible exchange rate and external adjustment.
Project Spotlight
Serving People, Improving Health

Serving People, Improving Health in Ukraine is one of the World Bank’s largest health care projects in the Europe and Central Asia region, with an investment of roughly US$215 million.

It aims to support health reforms, enhance efficiency in the health care system, and improve the quality of health services in eight selected regions, with a special focus on primary and secondary prevention of cardiovascular diseases and cancer.

At the regional level, providers of health care have received additional equipment, supplies, and communication materials to provide better care for patients with hypertension and acute heart disease.

Primary and ambulatory care facilities and hospitals are being constructed and reconstructed to provide adequate access to better quality health care. In one region, early detection procedures and timely care for cancer patients have been introduced.

For example, in the Poltava region, mobile diagnostic clinics were purchased with Bank support to provide critical services for the detection and treatment of high blood pressure to patients in remote areas, as 47 percent of villages and towns across Ukraine’s regions do not have adequate medical facilities.

Also, 47 modern defibrillators and 37 ventilators were procured for the Poltava region. These defibrillators have already helped to save more than 300 lives. In addition to helping patients to overcome cardiovascular crises, the procured ventilators will be instrumental in treating patients with the COVID-19 virus.

The project is also supporting ongoing health reforms that are being implemented by the Ministry of Health. Areas of support include the modernization of health financing, capacity building, e-health/ information systems, and public outreach to increase awareness of the main risk factors of cardiovascular diseases and cancer.

The project is being implemented in the Poltava, Dnipro, Lviv, Volyn, Rivne, Zaporizhzhia, Zakarpattia, and Vinnitsa regions.