The World Bank in Ukraine

Country Snapshot

An overview of the World Bank's work in Ukraine

April 2019

UKRAINE	2018
Population, million	42.5
GDP, current US$ billion	125.5
GDP per capita, current US$	2,975
School Enrollment, primary (% gross) (2015)	103.9
Life Expectancy at birth, years (2015)	71.2

At a Glance

- Ukraine's GDP growth accelerated to 3.3 percent in 2018, but macroeconomic vulnerabilities remain and the economic recovery is fragile. Growth was supported by a record harvest, expanded services, and favorable conditions for domestic demand.
- Consumption continued to grow due to higher public spending, real wages, and remittances. Investment was held back by uneven reform progress, election-related uncertainties, and low domestic savings.
- The growth outlook depends on Ukraine's ability to accelerate reforms and mobilize adequate financing.
- Ukraine faces formidable financing needs of US$11 billion (8 percent of GDP) per year to repay public debt and cover the fiscal deficit in 2019–21.

Country Context

Ukraine has experienced acute political, security, and economic challenges during the past five years. Since the "Maidan" uprising in February 2014 that led to the ousting of the previous president, the country has witnessed several momentous events, including the outbreak of conflict in eastern Ukraine and presidential, parliamentary, and local elections.

The Government, which took office in April 2016, has committed to an ambitious and wide-ranging reform agenda.

Key reforms undertaken since 2014 include: carrying out significant fiscal consolidation, moving to a flexible exchange rate, reforming energy tariffs and social assistance, enhancing the transparency of public procurement, and simplifying business regulations.

Other important reforms include: stabilizing and restructuring the banking sector, adopting a health reform package, moving forward on pension reform, and establishing anti-corruption agencies and asset disclosure for public officials, all the while contending with powerful vested interests that continue to oppose reforms.

Going forward, Ukraine will need to advance reforms on multiple fronts to achieve sustainable recovery and shared prosperity.

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$12 billion in about 70 projects and programs.

In March 2014, after receiving a request from the Ukrainian Government, the World Bank Group (WBG) announced its support for a reform agenda aiming to put the Ukrainian economy on a path to sustainability.

The current International Bank for Reconstruction and Development (IBRD) portfolio consists of eight investment operations of roughly US$2.4 billion and two guarantees of US$1.25 billion.

The World Bank and the 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 new 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

Responding to the crisis in Ukraine, in March 2014, the WBG announced that it would provide additional financial and technical support to the country. Since then, the Bank has supported the people of Ukraine through two series of Development Policy Loans (DPLs), seven new investment operations, and a guarantee amounting to approximately US$5.5 billion aimed at improving critical public services, supporting reforms, and bolstering the private sector.

The World Bank has also supported high-priority reform measures to address key structural bottlenecks to inclusive and sustainable growth through two series of budget support operations: the multi-sector DPL series (MSDPL-1, US$750 million, approved in 2014, and MSDPL-2, US$500 million, approved in 2015) and the Financial Sector (FS) DPL series (FSDPL-1, US$500 million, approved in 2014, and FSDPL-2, US$500 million, approved in 2015). A multi-sectoral Policy Based-Guarantee (PBG) of US$750 million was approved in 2018.

WORLD BANK PORTFOLIO

No. of Projects: 8 IBRD investment operations, plus one guarantee

Total Lending: $2.4 billion, including $148 million from the Clean Technology Fund (CTF)

Reform measures aided by these four budget 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 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

GDP grew by 3.3 percent in 2018 after growing by 2.3 and 2.5 percent in 2016 and 2017, respectively. The pickup in growth was driven by a good agricultural harvest and by the sectors dependent on domestic demand—domestic trade and construction—which both grew by over 5 percent. Household consumption continued to grow rapidly in 2018. At the same time, investment growth decelerated to around 9 percent compared to 18 percent in 2017.

Higher consumption helped reduce poverty, but pressures on the current account have intensified. Real wages continued to grow in 2018 due to further increases in minimum wages and pressures from outward labor migration. After four consecutive years of decline, pensions increased by 22.2 percent in real terms in 2018.

As a result, poverty (consumption per capita below US$5.5/day in 2011 purchasing power parity) declined to 4.0 percent in 2018 from 4.9 percent in 2017 and 6.4 percent in 2016. Strong domestic demand, together with real exchange rate appreciation, contributed to a pickup in imports and a widening of the current account deficit to 3.7 percent of GDP in 2018 compared to 1.9 percent in 2017.

Monetary policy helped to maintain macroeconomic stability. The fiscal deficit amounted to 2.1 percent of GDP compared to 2.3 percent in 2017, which helped to reduce public and publicly guaranteed debt to 63 percent of GDP in 2018. At the same time, significant hikes in minimum wages and additional sectoral upgrades resulted in a growth of the wage bill to 11 percent of GDP (compared to 9 percent in 2016), and social assistance spending remained high at 4 percent of GDP.

Ukraine's renewed cooperation with the International Monetary Fund (IMF), EU, and WBG helped to cover the current account deficit and to rebuild international reserves that reached US$20.8 billion (or the equivalent of 3.5 months of import cover).

Economic Outlook

Growth is projected to be 2.7 percent in 2019, as investment remains constrained by difficult external conditions, election-related uncertainties, and the resulting high cost of external borrowing.

In addition, Ukraine's terms of trade are projected to soften and limit traditional exports. Growth in 2019 will thus continue to be supported by the service sectors and consumption. The continued growth of consumption is expected to help continue to mildly reduce poverty.

Going forward, if the reform momentum is sustained, growth can recover to 4 percent in the medium term after election-related uncertainties abate.

This will require progress in the following areas: (i) attracting private investment in the tradable sectors by improving the business environment and privatizing large state-owned enterprises, developing a market for agricultural land, and tackling corruption; (ii) ensuring fiscal sustainability through affordable implementation of health and education reform, the further rationalization of social assistance, and the development of a more equitable and growth-friendly tax system; (iii) further reducing inflation and rebuilding reserves; and (iv) reviving sound bank lending to the enterprise sector.

Ukraine faces formidable financing needs in the next three years that will require the mobilization of sizable international financing and clear-cut efforts to meet the fiscal deficit target of 2.5 percent of GDP to maintain macroeconomic stability. Ukraine needs about US$11 billion per year (8 percent of GDP per year) to repay public debt and finance the fiscal deficit in 2019, 2020, and 2021.

To raise the necessary financing, it is critical that the country maintain its reform momentum and stay on track with the completion of IMF reviews. Ukraine will continue to need an IMF program after the Stand-By Arrangement expires in March 2020.

Project Spotlight

Serving People, Improving Health

The objective of the Serving People, Improving Health Project is to improve the quality of health services with a special focus on primary and secondary prevention of cardiovascular diseases and cancer.

Serving People, Improving Health in Ukraine is one of the Bank's largest health care projects in the Europe and Central Asia region, with an investment of roughly US$215 million. It aims to improve the quality of health services in 8 selected regions, with a special focus on primary and secondary prevention of cardiovascular diseases and cancer, and to enhance efficiency in the health care system.

Thanks to this project, women in Ukraine's Lviv region can now benefit from early screening to help detect, diagnose, and treat cancers, thanks to the establishment of six new screening centers, each of which has been equipped with modern medical facilities and technology.

In the Poltava region, where 47 percent of villages and towns do not have medical facilities, ambulant clinics, purchased with help from the World Bank, provide a critical service by helping people with the detection and treatment of high blood pressure.

The Rivne and Zakarpattia regions have procured over 40 new ambulances to provide Ukrainians with high-quality first aid services. The project is also supporting ongoing health reforms directly at the central level, implemented by the Ministry of Health, in 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.

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