The World Bank in Ukraine

Country Snapshot

An overview of the World Bank's work in Ukraine

April 2018

UKRAINE	2017
Population, million	44.8
GDP, current US$ billion	112.9
GDP per capita, current US$	2,522
School Enrollment, primary (% gross) (2015)	103.9
Life Expectancy at birth, years (2015)	71.2

At a Glance

- Economic growth remained modest in 2017, at 2.5% for the second year in a row. Foreign investment and credit to the private sector were anemic.
- Going forward, macroeconomic vulnerabilities will continue to stem from the significant financing needs and fiscal pressures due to higher public sector wages and social benefits.
- Poverty remains above pre-crisis levels, but declined slightly in 2017 due to the modest economic recovery and wage growth.
- The unemployment rate remained steady in the third quarter of 2017 at 9.4%, compared to 9.2% the previous year.
- Real wages grew significantly, by 19% in 2017, in part due to higher public sector wages. This, together with the real growth of pensions, led to a further decline in poverty to 5.7% in 2017 (according to US$5.5 per day 2011 purchasing power parity) from 6.4% in 2016 and 7.8% in 2015.

Country Context

Ukraine has experienced acute political, security, and economic challenges during the past three 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, making public procurement more transparent, simplifying business regulations, stabilizing and restructuring the banking sector, adopting a health reform package, and establishing anti-corruption agencies and asset disclosures for public officials, all the while contending with powerful vested interests that continue to oppose reforms.

Although these are important steps, more needs to be done. 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 25 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 then Ukrainian Government, the World Bank Group immediately 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$2.5 billion and one guarantee of US$500 million.

The World Bank and the current Government are implementing a 2017–21 Country Partnership Framework (CPF) for Ukraine 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 World Bank Group announced that it would provide additional financial and technical support to the country.

Since 2014, the World Bank Group 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 supported high-priority reform measures to address the key structural roots of the current economic crisis in Ukraine and to lay the foundation for 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).

Reform measures aided by these four budget support operations promote 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 have focused and will continue to 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.

In addition to financing several ongoing private sector projects, the International Finance Corporation (IFC) is implementing a large advisory program in the country.

WORLD BANK PORTFOLIO

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

Total Lending: $2.5 billion, including $148 million from the Clean Technology Fund (CTF)

Recent Economic Developments

Growth remains weak due to the key pending reforms needed to strengthen investor confidence. GDP grew by 2.5% in 2017 and 2.3% in 2016, a weak recovery since it follows a cumulative 16% contraction in 2014–15. The growth of fixed investment slowed in the second half of 2017, while foreign direct investment (FDI) remained weak at 2.1% of GDP in 2017 compared to 5% on average before the crisis. Investor confidence has been affected by the slow pace in adopting key reforms and by delays in completing the reviews of the International Monetary Fund (IMF) program in light of macroeconomic vulnerabilities and uncertainty surrounding the 2019 elections.

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The fiscal deficit was within the target range in 2017 but spending growth, inflation, and the current account deficit (CAD) continued to be high. The fiscal deficit remained flat and on target at 2.4% of GDP in 2017. However, expenditures were up by 11.7% in real terms and reached 42.6% of GDP due to the increase in the minimum wage (resulting in higher wages for teachers, doctors, and civil servants) and higher spending on social programs. This was balanced by strong revenue growth in 2017 that was driven by the payroll tax (20% in real terms due to the hike in wages), the value added tax (17% due to higher proceeds from imports), and the personal income tax (16%).

Economic Outlook

Bolstering economic growth and addressing macroeconomic vulnerabilities will require progress on the unfinished structural reform agenda, which, together with some headway on the IMF program, would also help to strengthen investor confidence. These steps would help stimulate a sustained recovery in fixed investment, financed by local sources and FDI, and boost growth to 4.0% by 2019.

The moderate poverty rate (under US$5.5 per day 2011 PPP) is expected to decline further in 2018, but remain elevated through 2019. As public spending is constrained, labor income will become the most important driver of increased incomes for the bottom 40%.

Elections scheduled in 2019 pose major risks to the adoption of the reforms needed to mobilize international financing, address fiscal and financial sector imbalances, and promote stronger economic growth:

- Macroeconomic vulnerabilities suggest total fiscal financing needs of US$18 billion in 2018 and 2019 that will require the mobilization of about US$8 billion in external financing.
- Financial sector weaknesses from the high number of nonperforming loans (55% of total loans), weak corporate governance of the dominant state-owned banks, and the weak financial position of the Deposit Guaranty Fund stand in the way of stimulating investment and growth.
- With real household incomes still below pre-crisis levels, continued weak economic growth of 2% going into the 2019 elections could undermine overall political and social support for the broad reform effort launched in 2014.
- External risks related to a possible decline in commodity prices and higher inflation in the advanced economies may result in a higher external trade deficit and increased financing costs, respectively.

Project Spotlight

Anti-Corruption Reform

During the first wave of e-declarations over 100,000 officials revealed their wealth.

Anti-corruption reform in Ukraine—supported by a DPL—means that officials must now declare their wealth online.

During the first wave of e-declarations, more than 100,000 officials revealed their wealth, and overall, around US$1 billion in the form of cash and bank accounts was declared, close to the equivalent of one IMF tranche to Ukraine. If this money were declared in 100 hryvnia bills (the Ukrainian currency), the cash would cover 684 square acres, reach 16 miles in height, and weigh 259 tons.

E-declarations have exposed a vast difference between the fortunes of politicians and those of the citizens they represent. Some officials have declared millions of dollars in cash, while others have declared ownership of fleets of luxury cars, expensive Swiss watches, diamond jewelry, and large plots of land, despite the fact that the average salary in Ukraine is just over US$200 per month. Declarations have been made not only by senior authorities in Ukraine, but also by regular officials across the country.

More than 100 criminal proceedings are currently ongoing related to the illicit enrichment of the declarants or the lies on their e-declarations. E-declarations are the first step on the road to the full transparency of the political elite. The next step is accountability. E-declarations were established with World Bank support and became a key instrument in helping create a comprehensive system of corruption prevention in Ukraine.

Corruption in Ukraine is a threat to national security and undermines the well-being of citizens. Although public access can raise valid concerns, the benefits outweigh the costs and any interference with privacy rights in the declaration is proportionate to the public interest. Online disclosure of public declarations has been introduced in many countries and is essential if public servants are to be held accountable.

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CONTACTS

Kyiv,
(380 44) 490-6671
1, Dniprovskiy Uzviz,
2nd Floor,
Kyiv 01010, Ukraine.

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