

The World Bank in Ukraine Country Snapshot



An overview of the World Bank's work in Ukraine

October 2016

| UKRAINE | 2015 |
|--|-------|
| Population, million | 42.6 |
| GDP, current US\$ billion | 90.4 |
| GDP per capita, current US\$ | 2,122 |
| Poverty Rate (\$5/day 2005 PPP terms) (2014) | 5.8 |
| Life Expectancy at birth, years (2014) | 71.0 |

At a Glance

- Ukraine's economy stabilized in 2016, but economic recovery and growth have not yet taken hold due to the lack of renewed reform momentum, weak external demand, and the smoldering conflict.
- Ukraine is currently at a crossroads, and addressing longstanding structural bottlenecks on multiple fronts will be critical to advancing development prospects and delivering tangible benefits to the population.
- The World Bank is working with the Government of Ukraine to support high-priority reform measures to address the key structural roots of the current economic challenges and to improve the provision of basic services to the population.

Country Context

Over the past three years, Ukraine has experienced acute political, security, and economic challenges. Following the "Maidan" uprising in February 2014 that led to the ousting of the previous president, this period has witnessed several momentous events, including the outbreak of conflict in eastern Ukraine, as well as presidential, parliamentary, and local elections.

The Government that took office in February 2014 proclaimed reforms as a priority and adopted a few critical changes but faced formidable challenges, including: containing conflict and restoring peace in the east; ensuring macroeconomic stability; tackling a major banking crisis; reducing the fiscal deficit in the midst of a recession without triggering social unrest or a backlash against reforms; and reducing deep-seated corruption while contending with powerful vested interests that continue to oppose reforms.

A new Government, which took office in April 2016, has committed to continuing reforms. In May 2016, a government program and action plan covering a wide-ranging reform agenda was issued.

Since 2014, Ukrainian authorities have carried out key reforms in several areas, including: undertaking significant fiscal consolidation, moving to a flexible exchange rate, reforming energy tariffs and social assistance, making public procurement more transparent, simplifying business regulation, and stabilizing and restructuring the banking sector. However, more still needs to be done.

The World Bank and Ukraine

The World Bank Country Partnership Strategy for Ukraine for 2012–16, endorsed by the World Bank's Board of Directors in February 2012, covers two main areas:

- 1) improving public services and public finances; and
- 2) improving the business climate to unlock Ukraine's economic potential.

In March 2014, following a request from the-then Ukrainian Government, the World Bank Group (WBG) immediately announced support for a reform agenda that aimed to put the economy on a path to sustainability. Currently, the Bank is preparing a new Country Partnership Framework 2017–21 that is expected to be approved in early 2017.

Key Engagement

Responding to the crisis in Ukraine, the WBG announced in March 2014 that it would provide additional financial and technical support to the country. Since May 2014, the WBG has provided over US\$4.6 billion to Ukraine through 10 International Bank for Reconstruction and Development (IBRD) operations (four Development Policy Loans, or DPLs, in support of the budget, plus six investment projects) and US\$250 million in private sector financing from the International Finance Corporation (IFC), the Bank's private sector arm. In 2015 alone, the Bank approved two IBRD investment operations and two budget support operations for a total of US\$1.775 billion.

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 and the Financial Sector DPL series.

Reform measures supported by these budget

WORLD BANK PORTFOLIO

No. of Projects: 8 IBRD investment Operations
Total Lending: \$2,768 Million
(including \$148 Million from Clean Technology Fund)

support operations promote good governance, transparency, and accountability in the public sector, as well as stability in the banking sector. The operations also support efforts to strengthen the regulatory framework and reduce the cost of doing business; help unleash private enterprise and create sustainable and good quality jobs for all Ukrainians; and ensure that scarce public resources are used effectively to provide quality public services at a crucial time. The authorities are also supported 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 continue to focus on improving basic public services, such as district heating, power, roads, water and sanitation, health, and social protection. The World Bank is also supporting Ukraine through policy advice and technical assistance in formulating and implementing comprehensive structural reforms to, among other measures: improve public sector governance and efficiency in the use of public resources and fight corruption; restore fiscal and external account balances; stabilize the banking sector; enhance the investment climate; restructure the energy sector; and strengthen the social safety net system to target assistance to the poor and most vulnerable.

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

Recent Economic Developments

The economy grew by 0.8% in the first half of 2016 compared to a contraction of 4.5% in the second half of 2015, but recovery and growth have not yet taken hold except in select sectors. The conflict in the east has de-escalated since September 2015, and the bold reforms of 2014–15 have begun to stabilize confidence. As a result, initial signs of a rebound in select sectors appeared in the first half of 2016, with growth of 5.0% y-o-y in manufacturing, 5.5% y-o-y in domestic trade, and 4.0% y-o-y in transport and storage.

However, significant weaknesses remain in other parts of the services sector, while agriculture contracted mildly by 0.3% in the first half of 2016. Broad-based recovery and growth have been held back by a number of factors, including weak external demand, the continuing conflict in the east, and the lack of renewed reform momentum, all of which have held back a strong turnaround in investor confidence and productivity.

Moderate poverty (US\$5/ day 2005 PPP) is likely to have risen significantly in 2015 before declining gradually in the first half of 2016, thanks to resumed growth in real wages. In 2015, a sharp contraction in economic activity and high inflation are estimated to have almost doubled the moderate poverty rate from 3.3% in 2014 to 5.8% in 2015.

After a sharp reduction in large fiscal imbalances in 2015, revenues are down and expenditures are up in 2016, mostly due to lower social security contributions (SSC), resulting from the cut in the SSC tax rate from 40 to 22%, and higher spending on defense, internal order, and social protection. As a result, the general government deficit amounted to UAH 49 billion (or 2.1% of full-year GDP).

Economic Outlook

The outlook for economic growth remains weak due to the difficult global economic environment, the ongoing uncertainty related to the conflict in the east, and the challenge of advancing reforms on multiple fronts in a complex political environment. Growth is projected at 1% in 2016 and 2% in 2017. In the medium term, growth could pick up to 3–4%, as deeper structural reforms bolster investor confidence and productivity growth.

The real depreciation, coupled with reforms to create a level playing field for the private sector, enhance competition, and tap the European Union (EU) market, is expected to support exports and the tradable sectors. Reforms to improve expenditure efficiency should create the fiscal space needed to unlock public investment, while continued reforms in the banking sector should permit a gradual resumption of lending.

The outlook is subject to serious risks, including an escalation of the conflict, further deterioration in the external environment, and difficulty in advancing reforms in the midst of a strained political situation. In light of the gradual economic recovery, poverty is projected to decline only slowly and remain elevated through 2018.

Project Spotlight

The World Bank contributes to the improvement of Ukraine's social assistance system for low-income families through the Social Safety Nets Modernization Project. This Project tackles several key areas: expanding and assisting in financing the Guaranteed Minimum Income (GMI) program, improving the Housing and Utilities Subsidy, streamlining oversight and control procedures, continuing administrative modernization, and supporting the deinstitutionalization of children.

Over the past two years, the Project has directly cofinanced the expansion of the GMI program to increase the number of beneficiaries from 200,000 to 300,000 families, which now amounts to over 1 million people. It has also simplified the eligibility criteria, to be introduced in 2017, to boost the program's targeting accuracy.

The Project has also supported the implementation of activation services for GMI beneficiaries and internally displaced persons (IDPs) to promote the transition of work-able beneficiaries from benefits to employment. Provision of activation services will start in 2017 as a pilot in three regions. It is expected that 4,000 individuals will benefit from activation measures in these pilots. The national rollout of the activation pilot is planned for 2019.

As part of the Project, most energy-related assistance and privileges have been consolidated into one single program—the Housing and Utilities Subsidy, or HUS. The Project supported an unprecedented scale-up of HUS during the increase in energy tariffs. This massive scale-up from 1 million to 5.5 million households in 2015 managed to cushion the shock of increased prices and facilitate the political acceptability of the new energy prices. This was achieved through a number of major steps to simplify the application process and its administration.

Reducing error and fraud in the social assistance system, known in Ukraine as the verification process, is another area of assistance. As a result of system control improvements, in the third year of Project implementation, the authorities can expect to see annual savings ranging from 0.1 to 0.2% of GDP.

Progress has also been made in the deinstitutionalization of childcare. The transformation of children's residential institutions and the provision of family-based care to support orphans, children deprived of parental care, children with disabilities, and vulnerable families in the city of Kyiv and Kyiv Oblast (region) have been launched. It is expected that 15 residential institutions in these two regions will be transformed and 2,500 children will be placed in family-based care.



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The "Country Snapshot" is a bi-annual update, highlighting the country's recent developments, economic outlook and major overview of the World Bank's partnership with the country. You can find the latest updates at <http://www.worldbank.org/ukraine>