COVID-19 update

- As of 4 May, 12,331 cases of COVID-19 had been confirmed, including 303 deaths and 1,619 fully recovered. A total of 2,387 medical workers had been infected. As of this date, the daily number of new COVID-19 cases in Ukraine had yet to flat-line. The first case in the country was identified on 3 March. The main sources of the initial outbreak were Ukrainians returning from work and tourist trips from abroad.
- Ukraine’s response to the COVID-19 epidemic has coincided with a government reshuffle and the launch of its second phase of healthcare reforms (which began on 1 April and focus on secondary healthcare services).
- The country faces shortages of medical supplies for acute care, such as masks, protective suits and ventilators (Figure 1). Ukraine currently has more than 3,500 devices for artificial ventilation according to Deputy Health Minister Viktor Lyashko. This amounts to roughly 83 ventilators per million inhabitants, compared with 302 per million inhabitants in Germany. The total number of intensive care bed (ICU) units in the country is 1,716. A dedicated COVID-19 website has been created by the Government, with information in English and Ukrainian: https://covid19.com.ua.
- The government was slow to start rolling out coronavirus testing, but by 4 May, Ukraine had tested 134,592 people. In April, Ukraine received 250,000 coronavirus test kits from China, 100,000 from South Korea, as well as medical masks, disinfectants and ventilators.
- The Ministry of Health has also developed a set of new rules and standards on the hospitalisation of COVID-19 patients, their emergency treatment as well as deployment of temporary hospitals.

Figure 1. Indicators of healthcare system capacity

Economic impact

- *Situation prior to COVID-19:* The economic outlook was stable prior to the outbreak of COVID-19, with steady growth, moderate public debt and relative price and currency stability. However, a change of government in early March entailed a degree of political turmoil and reorganisation that may have slowed the initial response. Ukraine was already facing large foreign debt repayments in 2020, and negotiations with the IMF had stalled over issues like banking and land reform. Without an IMF deal, the risk of a sovereign default would increase. The unemployment rate in 2019 was above 9% of the labour force, the share of informal workers in the economy remains very high (up to 30%), and the social safety net is weak. Low domestic savings and limited fiscal space constrain the ability of households or the public authorities to absorb exogenous shocks.

- The Ukrainian Hryvnia (UAH) has fallen by 17% against the dollar (USD) since the beginning of the year (Figure 2), from UAH 23.5/USD to UAH 28.3/USD due to soaring demand for foreign currencies.

- Short-term indicators: On 30 March, Prime Minister Denys Shmyhal projected a 4.8% drop in GDP this year due to the pandemic. Yulia Kovaliv, the Deputy Head of the President's Office, has suggested that the contraction under even an optimistic scenario would amount to 5%.

- Financial markets: Since the start of the crisis, the yield on Ukraine’s long (2028) Eurobond has jumped by 150 basis points, effectively locking the country out of international debt markets. The Ukrainian Hryvnia (UAH) has fallen by 17% against the dollar (USD) since the beginning of the year (Figure 2), from UAH 23.5/USD to UAH 28.3/USD due to soaring demand for foreign currencies.

**Figure 2. The hryvnia has depreciated by 17% against the dollar since the start of the year**

Source: NBU
Table 1. Key economic projections for Ukraine in 2020 (pre and post COVID-19)

<table>
<thead>
<tr>
<th>Economic outlook 2020</th>
<th>Pre-COVID-19 projections</th>
<th>Post-COVID-19 projections</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation (y/y)</td>
<td>5.5%</td>
<td>8.7%</td>
</tr>
<tr>
<td>UAH/USD exchange rate</td>
<td>27</td>
<td>29.5</td>
</tr>
<tr>
<td>GDP (%)</td>
<td>3.7%</td>
<td>- 7.7%</td>
</tr>
<tr>
<td>Unemployment</td>
<td>8.1%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Monthly average salary (UAH)</td>
<td>12.5 thousand</td>
<td>10.7 thousand</td>
</tr>
<tr>
<td>Balance on Current Account (Percent of GDP)</td>
<td>N.A.</td>
<td>-2.0%</td>
</tr>
<tr>
<td>General Government Net Lending/ Borrowing (Percent of GDP)</td>
<td>N.A.</td>
<td>-8.2%</td>
</tr>
<tr>
<td>Forex reserves (USD)</td>
<td>29.3bn</td>
<td></td>
</tr>
</tbody>
</table>


Policy reactions

- **Borders:**
  - Non-citizens have been banned from entering the country (except for diplomats and permanent residents). On 17 March, the Cabinet of Ministers banned all air or rail travel, although citizens who cross the border on foot or by car can still re-enter Ukraine. On 24 March, Ukrainian citizens were prohibited from leaving the country for tourist travel.
  - On April 8, the Cabinet of Ministers published a decree ordering the mandatory observation in hospital of all persons crossing the state border and entering into Ukraine.
  - On April 24, it was announced that these border restrictions would be extended until at least 11 May. On May 4, the Prime Minister extended these restrictions until 22 May, except for Ukrainians returning to the country.

- **Containment:**
  - On 12 March, Ukraine imposed a three-week nationwide quarantine and shut down educational institutions and public events with over 200 people (Box 1). On 17 March, the government ordered the closure of all schools, educational institutions, cafes, restaurants, gyms, shopping malls and entertainment venues. Most public transport has been also shut down. Grocery stores, pharmacies, banks and gas stations remain open. Gatherings of over 10 people are also prohibited. On 25 March, the quarantine was extended until 24 April, and on 22 April the government announced a further extension to 11 May. On 4 May, the Prime Minister announced an ease on containment measures as of 11 May but an extension of quarantine until 22 May whereby the following enterprises will remain closed: most public transportation, intercity and foreign travel by train and air, indoor cafes and restaurants, schools and universities.
  - On April 3, the Prime Minister announced the introduction of new measures, including a ban on being in public areas without wearing a mask and on walking in groups of more than two people. The government also imposed a ban on visiting parks, squares, recreation areas, forest parks and coastal zones, except for the purposes of walking pets (individually). The Cabinet of Ministers has also banned walking in the street without identification documents, and leaving areas that are for designated self-isolation. These measures are being enforced and in case of violation a fine of between UAH 17 000 to UAH 34 000 is applied. By 13 April, Ukraine’s police had opened 56 criminal cases for the violation of lockdown rules and drawn up 6,042 protocols on related administrative offences.
  - On April 3, the Cabinet of Ministers instructed regional state administrations and Kyiv City State Administration to introduce checkpoints at regional borders, manned by the military and law enforcement officers.
The Ministry of Digital Transformation is working to develop an app to monitor how well citizens are following rules of observation or self-isolation.

On April 8, an amendment was passed exempting workers in selected Ukrainian industries from full self-isolation rules: construction, waste collection and storage, building materials traders and workers in the postal industry. Some categories of people over 60 fulfilling the following roles are also allowed to leave their house for work: civil servants, MPs and elected local government officials, judges, servicemen and employees of the Armed Forces, other lawful military formations and law enforcement agencies and persons taking action to prevent the spread of COVID-19. Essential workers in the fields of energy, chemicals, transport, information and communication technologies, electronic communications, banking, finance and the defence industry are also exempted from self-isolation, as are emergency and rescue services, workers in strategically important enterprises or potentially dangerous industries, and workers who provide basic goods and services to support the life of the population (e.g. centralised water supply, sewage, electricity and gas supply, food production, agriculture, health care).

On 24 April, Prime Minister Denys Shmyhal announced that public parks and gardens would reopen from 11 May. He also signalled that wholesale and retail non-food stores would be able to resume trading from that date.

On 4 May, Prime Minister Shmyhal announced that in addition to parks and recreation areas, beauty salons, hairdressers, museums, libraries, summer terraces of cafes and restaurants, shopping malls (excluding entertainment facilities), dentists, auditors, attorneys, notaries, service centres for household appliances and domestic services (dry cleaning, clothing and shoes repair shops, etc.) will open as of 11 May.

- **Monetary measures:**
  - During mid-late March, the National Bank of Ukraine (NBU) sold foreign currency on a daily basis, in an attempt to support the hryvnia against the US dollar. NBU forex sales eased towards the end of the month, and on 27 March, the regulator set the official forex rate at UAH 28.14 to the dollar. The NBU has said it will impose no restrictions on Ukraine’s foreign exchange market, and will continue to mitigate excessive fluctuations through the sale of its foreign currency reserves.
  - The NBU has introduced a long-term refinancing mechanism for banks for up to 5 years, in addition to standard short-term refinancing instruments. The move will support bank lending in UAH, reinforcing the effect of other NBU measures, such as a 100bp cut of the key interest rate to 10% last month.
  - On 23 March, the NBU signalled it would allow Ukrainians to postpone mortgage payments until quarantine restrictions have been lifted.
  - The NBU also launched other initiatives to support banks during the crisis, including postponing stress testing and the introduction of capital buffers and cancelling field checks. A review of the terms of filing of annual financial statements for banks was postponed, as was a review of the business models of banks.
  - Parliament has legislated against any increase in rates at which consumer credit is being offered until 30 April (rate changes envisaged via prior contractual obligation are still permitted). No penalties will be applied for late loan repayment between 1 March 2020 and 30 April 2020.
Box 1. The cost of containment

Figure 3 presents preliminary estimates of the cost of confinement measures in Ukraine and the G7 countries. These estimates do not represent a forecast for growth in 2020, as they do not take into account external developments or the strength of the rebound in domestic activity as confinement measures are relaxed, which will depend in part on the success of government efforts to support households and firms through the period of confinement. Rather, they represent a rough estimate of the upper bound of the costs of strict containment policies.

The method employed here, adapted from OECD (2020), looks at detailed categories of output to identify the sectors most directly affected by containment measures. For each of these activities, assumptions are made about the extent to which the activity is likely to be reduced, with output declines ranging from 50-100%. Thus, the greatest declines are anticipated for proximity services requiring face-to-face contact, and for sectors such as travel and tourism. Retail trade and catering are also hit hard, although takeaway sales and on-line sales may prevent a full cessation of activity for some businesses. Non-essential construction is also adversely affected by containment policies affecting labour availability. And so on.

The impact on annual GDP will also depend on how long these measures remain in place. The estimates assume that strict confinement measures last for roughly two months. Full shutdowns are assumed in manufacturing of transport equipment and other personal services; declines of one-half are assumed for output in construction and professional service activities; and declines of three-quarters are assumed in all the other output categories directly affected by shutdowns. The calculations are based on an assumption of an economy-wide shutdown, rather than a shutdown confined to particular regions. These are assumptions only, and the actual situation may be rather different, depending on the containment measures adopted.

An activity decline as in the scenario described a total duration of 8 weeks would imply a direct cost of something like 3.2% of annual GDP. Again, these are cost estimates, not growth projections, as they do not reflect subsequent internal or external developments during the recovery phase. Nonetheless, they point to substantial contraction in 2020. Moreover, given Ukraine’s limited fiscal space and exposure to developments on foreign markets, a sharper contraction cannot be ruled out. The IMF and other projections suggest that Ukraine would face recession in the current global environment even if there were no Covid-19 outbreak in the country.

Figure 3. The potential cost of containment measures, G7 and Ukraine (% of GDP)

Note: The sectoral data are on an ISIC rev. 4 basis in all countries. The sectors included are manufacturing of transport equipment (ISIC V29-30) - except for Ukraine where the manufacturing is estimated as 3.5% of total manufacturing - construction (V), wholesale and retail trade (VG), accommodation and food services (VI), real estate services excluding imputed rent (VL-V68A), professional service activities (VM), arts, entertainment and recreation (VR), and other service activities (VS). The latter two are grouped together as other personal services in the figure. Real estate services excluding imputed rent are assumed to be 40% of total real estate services in countries in which separate data are not available.

Sources: OECD Annual National Accounts; State Statistics Service of Ukraine and OECD calculations.
Fiscal measures:
- On 24 March, the Prime Minister announced that the government would create a UAH 200bn (USD 7.17bn) Stabilisation Fund to support pensioners and the newly unemployed. In order to pool resources for this fund, government departments and agencies have been instructed to reconsider their investment programmes and regional development projects.
- On 29 March, the Cabinet of Ministers submitted a draft law amending the state budget to redirect funds from non-priority state programmes to counteract the COVID-19 spread. On April 13, Parliament passed amendments to the 2020 budget, creating a UAH 64.7bn (USD 2.4bn) Fund to Deal with COVID-19. The amended budget will allocate an additional UAH 15.8bn (USD 600m) to the National Health Service, which is run by the Ministry of Health, to buy medications for those infected with COVID-19. It will also increase the pension fund by an additional UAH 29.7bn (USD 1.1bn). To help fund the new expenditure, the government has cut subsidies, regional budgets, financial assistance for schools and teachers, sporting programmes, expenditure on local elections and the money allocated to the government’s planned census. Overall, as a result of the amendments, the 2020 budget’s revenue plan has decreased by UAH 119bn (USD 4bn). The new budget assumes annualised GDP will shrink by -3.9% in 2020, which is less than the -4.8% contraction that was recently forecast by Prime Minister Denys Shmyhal.5

Economic measures:
- Legislation was adopted on 17 and 30 March exempting certain medical supplies from import duties and VAT, allowing public sector employees to work from home and enabling businesses to adopt more flexible hours. Parliament has also suspended the requirement to pay tax on commercial real estate and land, defined COVID-19 quarantine as a force-majeure for legal contracts, suspended tax inspections of companies, expanded the government programme of affordable bank loans at discounted interest rates for businesses, suspended the submission of income declarations until July, eased transaction registration rules for certain categories of entrepreneurs and reemphasised the right not to pay rent of citizens who cannot use their property due to quarantine. Entrepreneurs have also been exempted from having to pay social security contributions.
- On 26 March, state-owned PrivatBank announced a “credit holiday” for small and medium-sized businesses until the end of May. Information for businesses with regards to restrictions, state support and other emergency measures is provided on: www.sme.gov.ua.

Social measures:
- Administrative requirements for enrolment in the Housing Utilities Subsidy programme have been simplified. In addition, the government plans to subsidise utility bills for certain segments of the population during the quarantine period and to regulate the prices of essential goods in case of market abuses.
- On 1 April, a resolution was passed granting pensioners aged 80 or above a monthly UAH 500 pension top-up, while all pensioners with pensions of less than UAH 5000 (approximately 10m citizens) will receive a one-time cash payment of UAH 1000. Pensions will be raised 11% (indexed) in May.
- Quarantine has been made legal grounds for claiming unemployment benefits. The Unemployment Social Insurance Fund budget was increased to support this change. Eligibility requirements for the Guaranteed Minimum Income programme have been relaxed to extend the duration of payments and enable simplified enrolment online.
- Deputy Minister of Health Viktor Lyashko has also announced the creation of mobile brigades that will visit the homes of people who have COVID-19 symptoms. As of 30 March, 567 brigades were active. The brigades will take a swab of an individual’s nose and throat and send it for laboratory analysis. Based on the results, further treatment and, if necessary, hospitalisation can be recommended. This will help to limit the movements of people with a suspected COVID-19 infection. Medical workers who are involved in fighting COVID-19 will receive a 200% monthly salary increase for the duration of the epidemic.
The Ministry of Education YouTube channel, the National Public Broadcasting Company and 10 other TV channels broadcast online classes for children who are currently in quarantine.

**Gender impact:**
- Currently, there are no gender-specific measures to address the socio-economic impact of COVID-19. The employment drop related to social distancing measures has a disproportionately large impact on sectors with higher women’s employment shares. Women are more vulnerable to health risks due to greater exposure to the virus. Women account for 82% of total health and social workers (compared to 70% average worldwide)⁶.
- In addition, closures of schools and day-care centres have significantly increased childcare needs, which has a particularly large impact on working mothers. The effects of the crisis on women, particularly working mothers, are likely to be persistent: given high returns to experience in the labour market, women absent from the labour market for any extended period are likely to suffer a lasting disadvantage in terms of earnings and potential advancement.
- According to UN Women, Ukraine has seen a 30% rise in calls to the domestic violence helpline since the start of the nationwide quarantine⁷.

**International donor support:**
- Last December, the IMF committed to a new three-year stabilisation fund. Payment is conditional on delivery of certain reforms, namely passage of legislation to improve the bank resolution framework and land market reform. If a deal can be reached, lending support will include at least USD 5.5bn through an Extended Fund Facility. To this end, on 30 March, parliament adopted two laws addressing land reform⁸ and banking⁹ issues (the banking law passed the first reading and is to be adopted in the shortest possible timeframe). As a result, Ukraine may attract additional financing from the IMF reaching up to USD 8bn.
- Additional financing from the World Bank and the EBRD also depends on the IMF deal.
- In mid-April, the European Commission submitted to the European Parliament and Council a proposal to allocate EUR 3bn in macro financial assistance (MFA), in the form of medium-term loans, to support ten neighbouring partners in the context of the COVID-19 crisis, including EUR 1.2bn for Ukraine.
- Ukraine and Germany have agreed a EUR 150m loan from Germany to support healthcare and social payments.
- On April 17, the United States Agency for International Development (USAID) increased humanitarian assistance to Ukraine from USD 1.2 million to USD 9.1 million to combat the spread of coronavirus.

**Outlook**
- As in many emerging market economies, investors in Ukraine have been liquidating their positions in local assets and moving their funds to safe haven assets such as US government debt. The policy action is very bold given the limited means available to the government and covers the groups most severely affected by the containment measures. With limited fiscal space and urgent need for IMF support, the authorities will be under greater pressure than ever to meet the Fund’s conditions. In late 2019, the government’s real GDP growth projection for 2020 was in the 3.7-4.8% range, depending on the scenario; however, the new government forecast points to a contraction of 4.8% this year.

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1 See: https://covid19.com.ua/en

2 France - 59 cases, Poland and Italy – 17 cases, Egypt – 16 cases, Germany – 12 cases, Spain – 11 cases, and UK – 9 cases


5 Increases by Ministries as follows: Ministry of finance (UAH 71.2bn), Ministry of Social Policy (UAH 19.5bn), Ministry of Health (UAH 15.7bn), Ministry of youth and sport (UAH 2.6bn), Ministry of reintegration of temporary occupied territories (UAH 1.3bn) - source: www.epravda.com.ua/news/2020/04/13/659301/


7 Idem

8 See: https://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=67059

9 See: http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=68492