# Ukraine

Ukraine's economy proved resilient in 2023 and is estimated to have expanded by 5.3%. Growth is projected to moderate in 2024, due to infrastructure damage from Russia's attacks and as the benefits of the reopening of sea export routes and of a good harvest fade. Inflation is likely to rise slightly due to the ongoing disruptions from Russia's war of aggression in Ukraine. In 2025 growth will rise to 4.5% assuming an improved security situation enables reconstruction to accelerate. The evolution of the war and the essential role of international support make these projections exceptionally uncertain.

The economy is benefiting from stabilising macroeconomic policies amid considerable government and external financing needs and uncertainty. Continuing to avoid monetised government deficits, and ensuring that exchange rate and monetary policy continue to support moderate inflation will remain key. Improvements to the business environment would encourage new investment and support the recovery.

## Activity has been resilient

Growth in 2023 was supported by a strong harvest, improved exports, and reduced inflation. The reopening of Black Sea routes has supported exports, especially of bulk commodities, and offset the impact of blockages on road export routes. Several manufacturing and services sectors maintained or increased production, despite the enormous security challenges and the difficulties in recruiting skilled workers. Energy production and exports were set back by targeted Russian attacks in March 2024. Inflation fell to 3.2% in the year to March 2024. The good harvest, mild winter and the diversion to the domestic markets of fresh foods blocked from road export have lowered many food prices, while imported goods price inflation was limited due to the modest depreciation of the exchange rate and rise in oil prices. Business and consumer confidence and near-term expectations in March 2024 had returned to levels of mid-2023, after deteriorating in late 2023 following military setbacks and greater uncertainty over international financial and military support.

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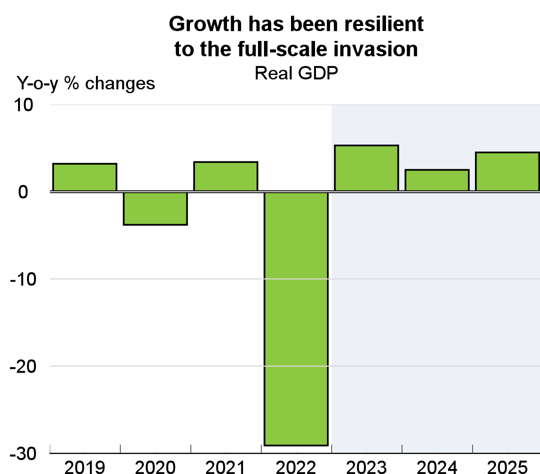


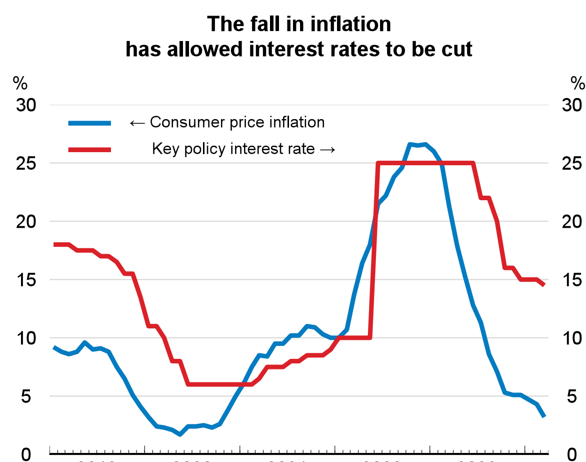


Source: OECD Economic Outlook115 database; Central Bank of Ukraine; and State Statistics Service of Ukraine.

https://stat.link/1lubt4

## Ukraine: Demand, output and prices

| Ukraine | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| | Current prices UAH billion | Percentage changes, volume (2020 prices) | | | | |
| **GDP at market prices** | 4 222.0 | 3.4 | -29.1 | 5.3 | 2.5 | 4.5 |
| *Memorandum items* | | | | | | |
| Consumer price index | _ | 9.4 | 20.2 | 12.8 | 7.0 | 7.2 |
| General government financial balance (% of GDP) | _ | -3.4 | -16.1 | -19.7 | -19.2 | -17.4 |
| Current account balance (% of GDP) | _ | -1.9 | 5.0 | -5.5 | -6.2 | -7.0 |

Source: OECD Economic Outlook 115 database.

Russia's war of aggression against Ukraine continues to inflict significant damage. Approximately 6 500 000 migrants were outside of Ukraine due to the war in early 2024, 15% of the 2021 population. Ukraine's government, the World Bank and the European Commission have estimated physical damages at USD 152 billion at the end of 2023, including significant transport infrastructure and 10% of the housing stock. Construction activity is rising as this damage is repaired. Attacks in March and April 2024 reduced energy, industrial and social infrastructure capacity, and Ukraine has returned to importing electricity from the European grid.

## Unstable foreign support is pressuring public finances

Fiscal policy remains highly reliant on foreign financing inflows. The government deficit in 2023 was near 20% of GDP, and is projected to decline only slightly in 2024, as the government mobilises more domestic revenue to fund defence spending and limits non-defence spending. Domestic revenues are rising with improved VAT and excise tax collections, and with higher tax rates on banks' profits. Foreign financing aid also picked up in February and March 2024. Shortfalls in revenues, especially in external support at the start of 2024, have led to deferred defence-related payments and cuts in other spending. Following the National Bank's lowering of its key policy rate by over 10 percentage points to 14.5% between June 2023 and March 2024, interest rates are expected to remain near current levels. Real interest rates remain positive, developments in supply drive the inflation outlook, inflation expectations are well anchored, and the exchange rate is playing a greater role in absorbing economic shocks. The transition from a pegged to a managed float exchange rate regime has been smooth. Inflows of foreign financial support exceeded foreign debt repayments, and led foreign exchange reserves to increase from USD 40.5 billion in December 2023 to USD 43.8 billion, or 5.8 months of imports, in March 2024.

## Activity is projected to remain resilient amid exceptional uncertainty

Growth is projected to moderate in 2024 as renewed damage to energy, industrial and social infrastructure disrupts activity and as the support from the strong harvest and reopened export routes of 2023 fades. Inflows of foreign financial support will buttress public spending and confidence. Production will progressively rise as businesses reestablish operations and as activities grow in defence and other new industries. Inflation is likely to rise modestly from current levels as supply remains disrupted. Risks to these projections are exceptional, due to the security situation and unknown duration of hostilities, and the pivotal role of foreign support. Reduced foreign support would worsen the fiscal position and, if public deficits are monetised, undermine price and exchange rate stability. Curtailed access to foreign markets would hurt

activity and amplify external and fiscal financing challenges. On the upside, a cessation of hostilities and greater confirmed foreign financial support would allow a surge of investment and more refugees to return.

## Macroeconomic stability and a better business environment will foster resilience

Policy should remain focussed on maintaining macroeconomic stability. Maintaining credible monetary policy, in particular by avoiding monetising unfinanced public deficits and retaining open foreign exchange markets, can limit inflation and support confidence and investment. Further easing of foreign exchange controls and ensuring a unified exchange rate while intervening to limit exchange rate volatility, as planned, could encourage exporters to repatriate their foreign exchange earnings. Maximising the share of grants in foreign fiscal support can support fiscal space and debt sustainability. Ukraine has accelerated structural reforms to improve the business environment, improve public sector effectiveness, combat corruption and improve the rule of law. Pursuing the reform agenda and ensuring that regulatory reforms lead to improvements in practice would enable greater private investment and accelerate the recovery. Strengthening the adult education system can help prepare workers for new opportunities.