UKRAINIAN ECONOMY IN WAR TIMES

RAPID ASSESSMENT, APRIL 2022
• General economic consequences
• Physical damages assessment
• Migration and human capital
• Policy response
• Fiscal gap
• Policies outline for the future

*This map has been informed by relevant reliable and open-source reporting, however the situation is fluid. This map should not be considered confirmed, or necessarily comprehensive.*
GENERAL ECONOMIC CONSEQUENCES

Devastating effects on every side of economic life

• GDP forecasts from -10% (IMF) to -45% (WB), electricity consumption drop by ~35% in March.
• Over half of the business activity frozen (57% according to EBA, 59% according to KSE)
• Exports at 50% of pre-war volumes, imports at 30% of pre-war volumes with a heavy ban on imports and collapse of the exports logistics
• Maritime logistics (62% of exports in 2021) effectively blockaded by Russians
GENERAL ECONOMIC CONSEQUENCES

Devastating effects on every side of economic life

• Consumer prices rose 4.5% in March compared to February, the annual figure very likely to exceed 15%
• Banking sector reportedly lost 50-70% of cash flow from loan portfolio, NPL and capital adequacy problems mounting, but the system is up and running
• Currency depreciation was negligible, but it took the severe capital controls to hold the currency crisis at bay
• Investments are frozen and unlikely to widely rebound without special war risk insurance policies
PHYSICAL DAMAGES ASSESSMENT

Over $80 bln and counting, regions with 30% of the national GDP affected...

TOP-5 damaged industrial assets

<table>
<thead>
<tr>
<th>Asset</th>
<th>Location</th>
<th>Industry</th>
<th>Assets, $ mln*</th>
</tr>
</thead>
<tbody>
<tr>
<td>MMK Illichia</td>
<td>Mariupol (Donetsk oblast)</td>
<td>Base metals</td>
<td>1 893</td>
</tr>
<tr>
<td>Azovstal</td>
<td>Mariupol (Donetsk oblast)</td>
<td>Base metals</td>
<td>1 444</td>
</tr>
<tr>
<td>Ukrainian energy machines</td>
<td>Kharkiv</td>
<td>Heavy industry</td>
<td>417</td>
</tr>
<tr>
<td>Antonov</td>
<td>Kyiv</td>
<td>Aircraft building</td>
<td>385</td>
</tr>
<tr>
<td>Kremenchug oil refinery †</td>
<td>Kremenchug (Poltava oblast)</td>
<td>Oil refinery</td>
<td>374</td>
</tr>
</tbody>
</table>

Share of affected regions in GDP

- Kharkiv oblast: 6.3%
- Donetsk oblast: 5.6%
- Kyiv oblast: 5.3%
- Zaporizhzhya oblast: 4.4%
- Mykolaiv oblast: 2.3%
- Chernihiv oblast: 1.9%
- Sumy oblast: 1.9%
- Kherson oblast: 1.6%
- Luhansk oblast: 1.0%
PHYSICAL DAMAGES ASSESSMENT

...and more at risk
HUMAN CAPITAL AFFECTED BRUTALLY

4.2 mln fled the country, 6 mln more are displaced, half of them might never return

Source: UNHCR (Data as of April 3, 2022)
POLICY RESPONSE

Timely, radical, limited by the lack of resources...

Taxation and business support

• The turnover limits for simplified taxation system eligibility were lifted. Now every enterprise can choose to pay 2% sales tax or remain on the general taxation system with VAT and corporate profit tax. VAT-free imports for entities on STS were introduced.

• Customs duties and excises were cancelled for all goods (except those from Russia, Belarus and temporarily occupied territories).

• Fuel VAT was declined to 7%, local transportation services VAT declined to 7%.

• Labor code temporarily simplified, easing the burden on employers.
POLICY RESPONSE

Monetary and currency regulations

- The government acted upon prices growth with VAT decline and regulating prices for several types of critical goods and services
- The NBU provided refinance to support banking system liquidity and keep it up and running
- Capital and current account controls were severe and imposed immediately: imports ban, FX rate fixed, capital outflow restricted
- The banks will have time to figure out their recovery strategies as the prudential regulations were waived on NPL and capital.
FISCAL GAP

... because there’re far not enough resources to cope with a crisis of such scale

The deficit reached $3 bn in March...

<table>
<thead>
<tr>
<th></th>
<th>January</th>
<th>February</th>
<th>March</th>
</tr>
</thead>
<tbody>
<tr>
<td>General fund revenue, $ bn</td>
<td>2.8</td>
<td>3.7</td>
<td>3.5</td>
</tr>
<tr>
<td>General fund expenditures, $ bn</td>
<td>2.4</td>
<td>3.7</td>
<td>6.3</td>
</tr>
<tr>
<td>Surplus/(Deficit), $ bn</td>
<td>0.4</td>
<td>0.0</td>
<td>-2.8</td>
</tr>
</tbody>
</table>

...and it is going to get worse

<table>
<thead>
<tr>
<th></th>
<th>% of 1/12 of annual plan</th>
<th>% of March revenue</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal income tax</td>
<td>73%</td>
<td>9%</td>
<td>Tax proceeds will likely decline because of layoffs</td>
</tr>
<tr>
<td>Corporate profit tax</td>
<td>232%</td>
<td>26%</td>
<td>CPT was prepaid by some companies, and 2021 profit tax was due in March. Govt has introduced wide STS</td>
</tr>
<tr>
<td>VAT</td>
<td>48%</td>
<td>22%</td>
<td>Fuel VAT down from 20% to 7%, local transportation VAT down from 20% to 7%. Import VAT cancelled for 1, 2 and 3 groups of STS.</td>
</tr>
<tr>
<td>Dividends from SOEs</td>
<td>803%</td>
<td>31%</td>
<td>SOEs paid dividends in advance; this source of revenue is almost exhausted</td>
</tr>
<tr>
<td>NBU profits</td>
<td>n/a</td>
<td>n/a</td>
<td>UAH 19 bn or 78% of the annual plan transferred in February</td>
</tr>
<tr>
<td>Other revenues</td>
<td>73%</td>
<td>12%</td>
<td>Excises for fuel and imports, as well as import duties were lifted</td>
</tr>
</tbody>
</table>

$4-6 bn is the estimated monthly deficit. Some will be covered by the foreign aid, some will be monetized.
POLICY OUTLINE FOR THE FUTURE

The most difficult policy making in Ukraine’s modern history

Domestic policies

• Restoration of business activities and employment in safer regions of Ukraine.
• Closing the fiscal gap with as little effect on inflation and debt burden as possible
• Massive extraordinary deregulation to be assessed and mainly retailed for the post-war period.
• Logistical issues will demand a lot of hands-on job to build new routes for the exports
• The NBU restrictions on imports and payments abroad might be gradually relaxed
POLICY OUTLINE FOR THE FUTURE

International policies (focused on financial aid)

• Grants instead of loans to ease the debt burden for the post-war future
• Existing debt management should not damage the ability to attract funds immediately and be as less damaging for the country’s credibility as possible
• After the war frontloaded Ukraine reconstruction support program should be activated, partly using Russia’s frozen assets
• Granting Ukraine the EU Candidate Status will have a profound impact on institutions rebuilding and economic policies.