



## Ukrainian Economy in 2023: Key figures

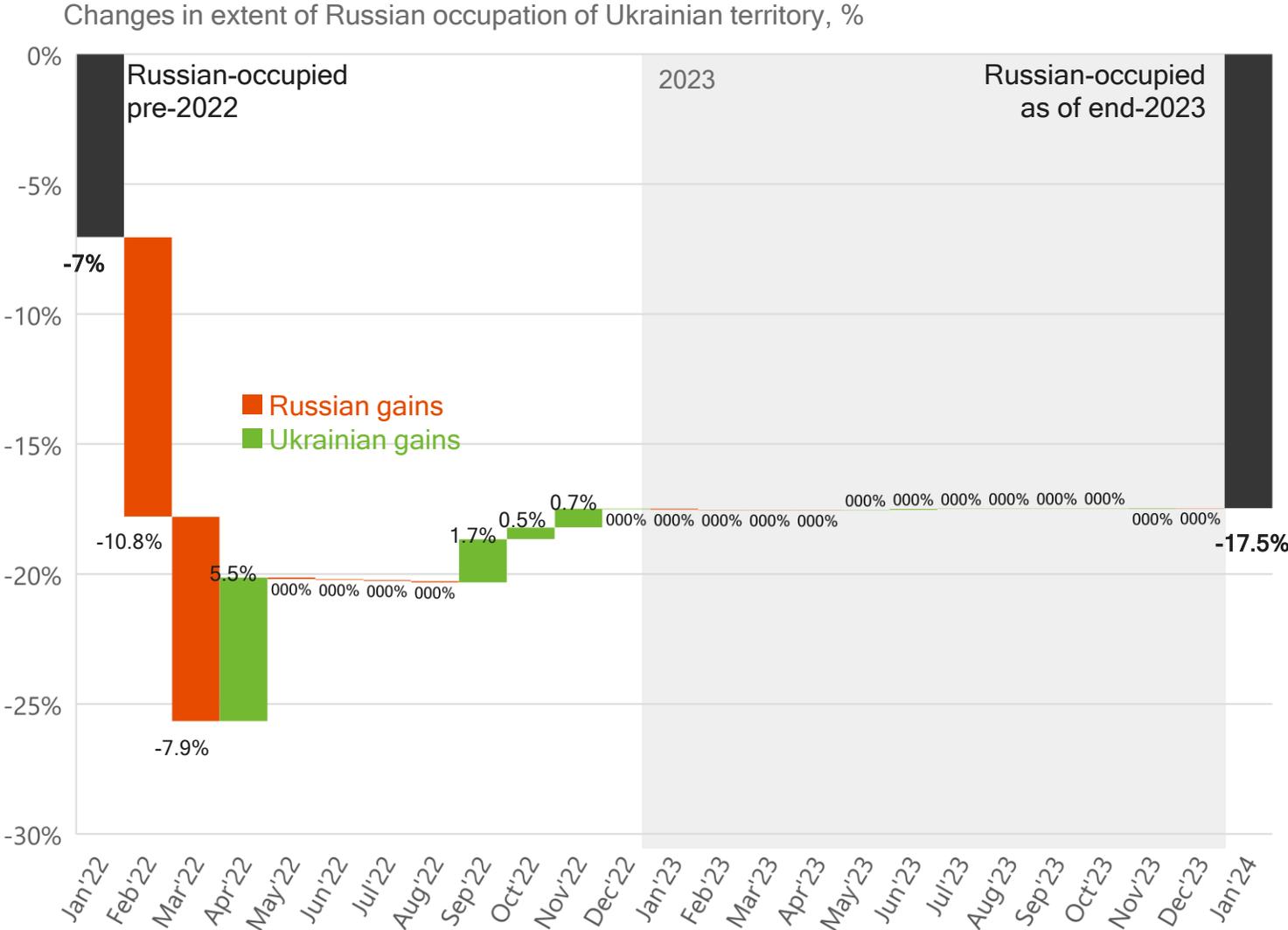
Date: 2023-01-11

Author: CES Team



# WAR

# WAR: SUMMARY OF 2023



- LAND:** Unfortunately, Ukraine did not meet its initial counteroffensive goals and failed to liberate much of its territory in 2023. Heavy fighting continues along all 850 km of the battlefield.
- SEA:** After Russian withdrawal from the Grain Deal, Ukraine managed to establish its own Ukrainian maritime corridor which is open for both export and import and is not limited to grains. This was made possible by Ukrainian attacks on the Russian fleet in the Black Sea.
- AIR:** Ukraine continued denying Russian air superiority. With arrival of much-anticipated western air defense systems, Ukrainian capabilities increased, but the danger of Russian air attacks is still grave.

Source: [Warmapper.org](https://www.warmapper.org)

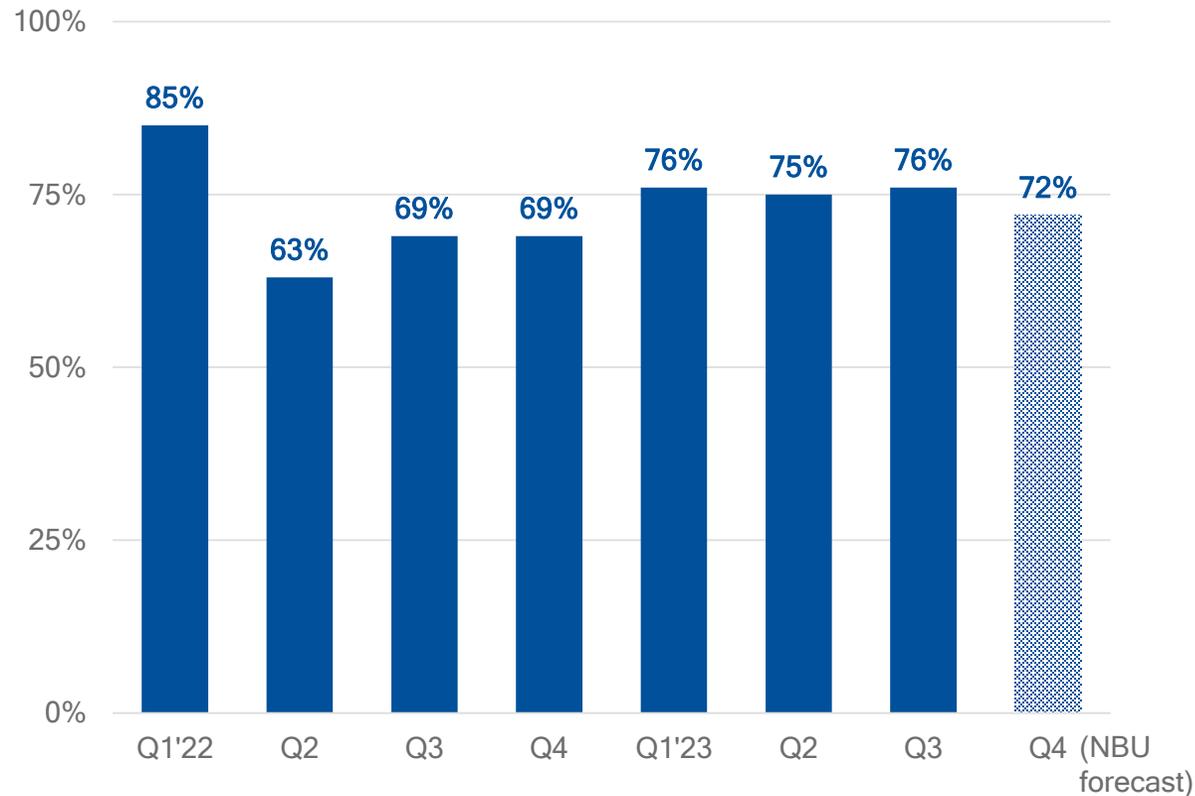


# MACROECONOMIC TRENDS

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## GDP is estimated to grow by 4.9% in 2023, but is much lower than in 2021

Real GDP in % to the corresponding quarter of 2021

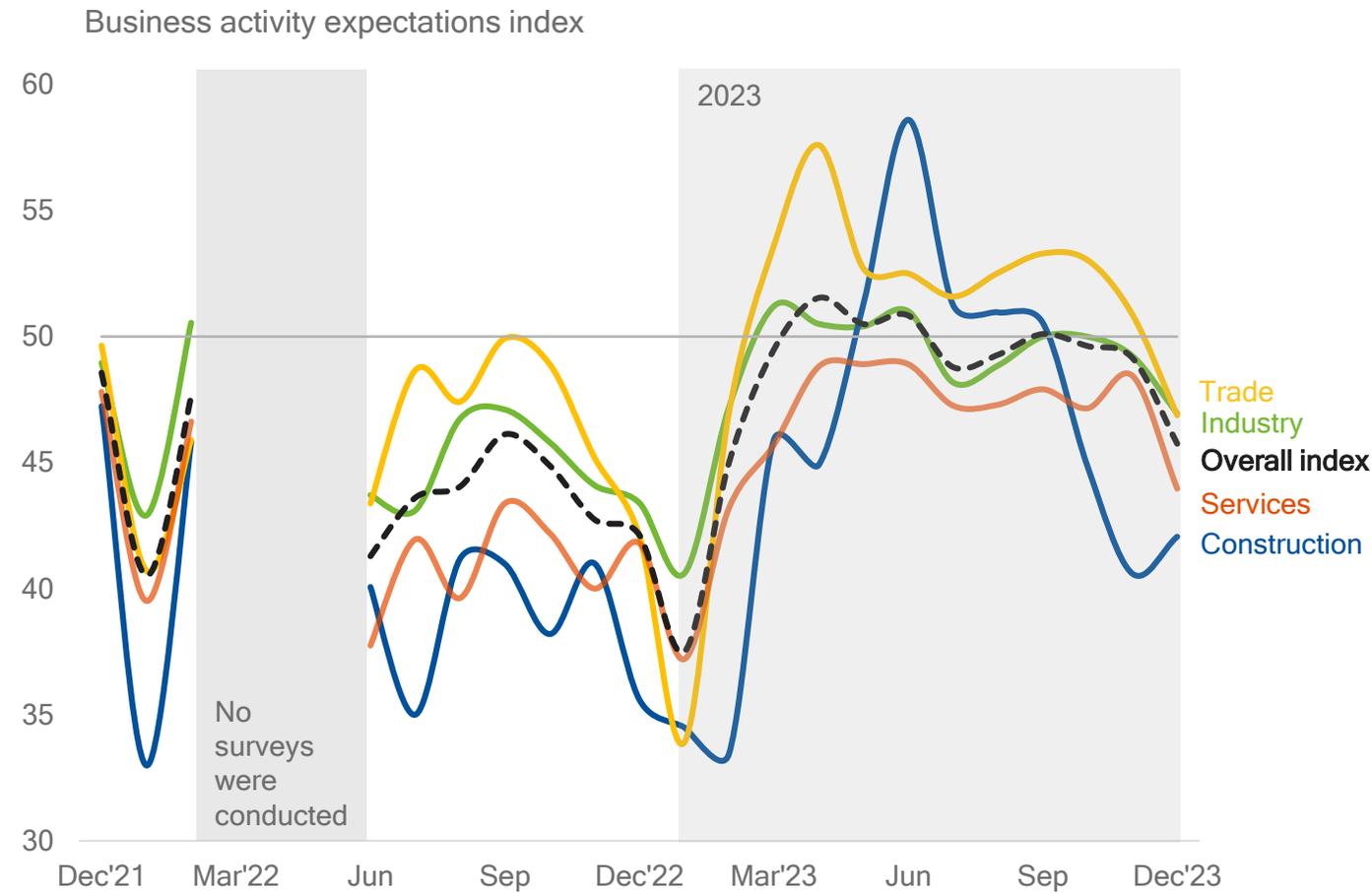


Sources: State Statistics Service of Ukraine, NBU, Oleksii Blinov

- In 2023, Ukraine's GDP stabilized after an unprecedented drop of 28.8% in 2022 – a revised number up from 29.1% reported earlier.
- In Q2 2023, GDP increased for the first time during the full-scale invasion and has been growing since then.
- However, GDP is still far from 2021 levels.
- NBU estimates the GDP to increase by 4.9% y-o-y in 2023, Dragon Capital – by 5.2% y-o-y.
- In 2024, the GDP is forecasted to increase by 3-4% (IMF), by 3.2% (World Bank), or by 3.6% (NBU).

# MACROECONOMIC TRENDS

## Business expectations worsened in November



Source: NBU

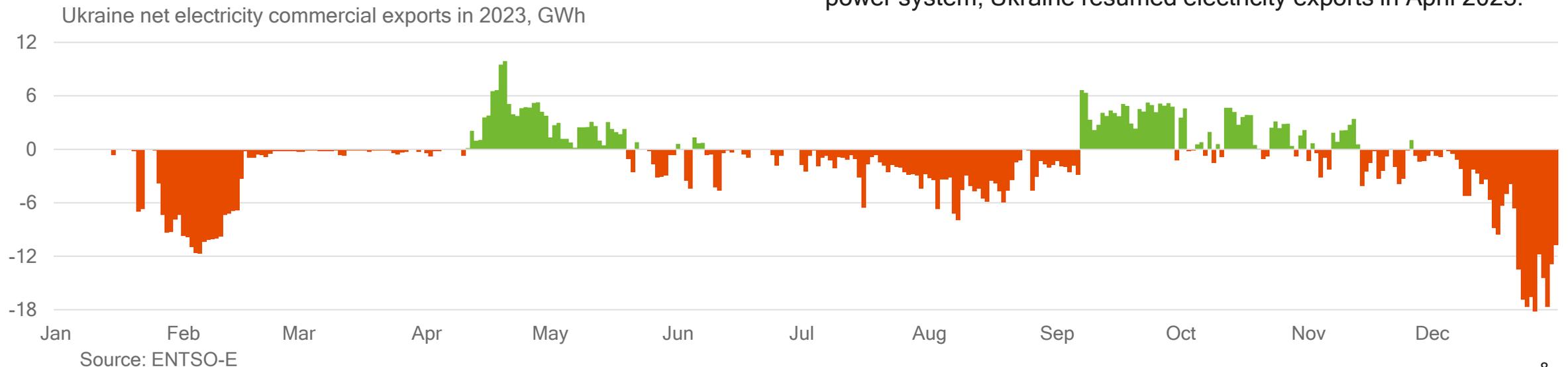
- In December, the NBU's index of business expectations decreased to 45.7 compared to 49.1 in November, remaining below the neutral level of 50 points.
- However, the expectations are now nevertheless higher than one year ago. Index of business expectations was 42.1 in December 2022 during the peak of blackouts caused by Russian attacks on the energy infrastructure.

# SECTORAL ANALYSIS

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## The power system survives under missile attacks and severe frosts

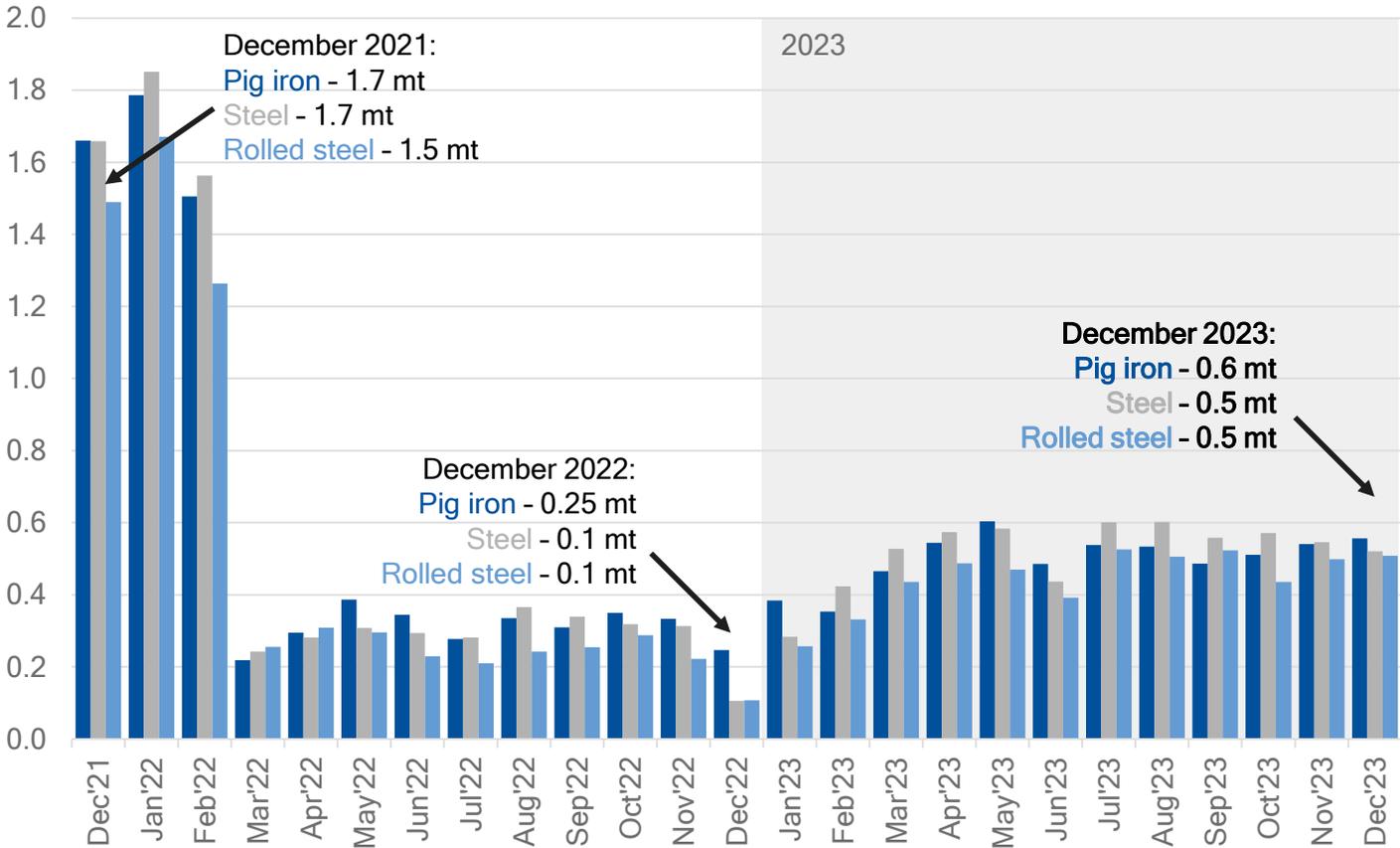
- From November 27 to January 1, Ukraine did not export electricity. Imports in December exceeded 225 GWh. At the beginning of January, Ukraine resumed exports to Romania and Slovakia.
- In December and early January, the Ukrainian power system coped with the additional load due to frosts that reached  $-25^{\circ}$  Celsius.
- As of January 9, 1025 settlements were disconnected from the grid, which is 4% of the controlled settlements of the country, most of them in Odesa and Mykolaiv regions. Half of them were reconnected to the network already within the next 24 hours
- The main reasons for temporary outages in January are gusty winds and icing of lines, and in the eastern regions - shelling of power grids
- The biggest challenge for the Ukrainian energy system over the past year was the consequences of regular Russian missile attacks on the energy infrastructure of Ukraine. After restoring the damaged power system, Ukraine resumed electricity exports in April 2023.



# SECTORAL ANALYSIS

## Ferrous production keeps the tempo, far from pre-war volumes

Ukraine ferrous production by main categories, mt



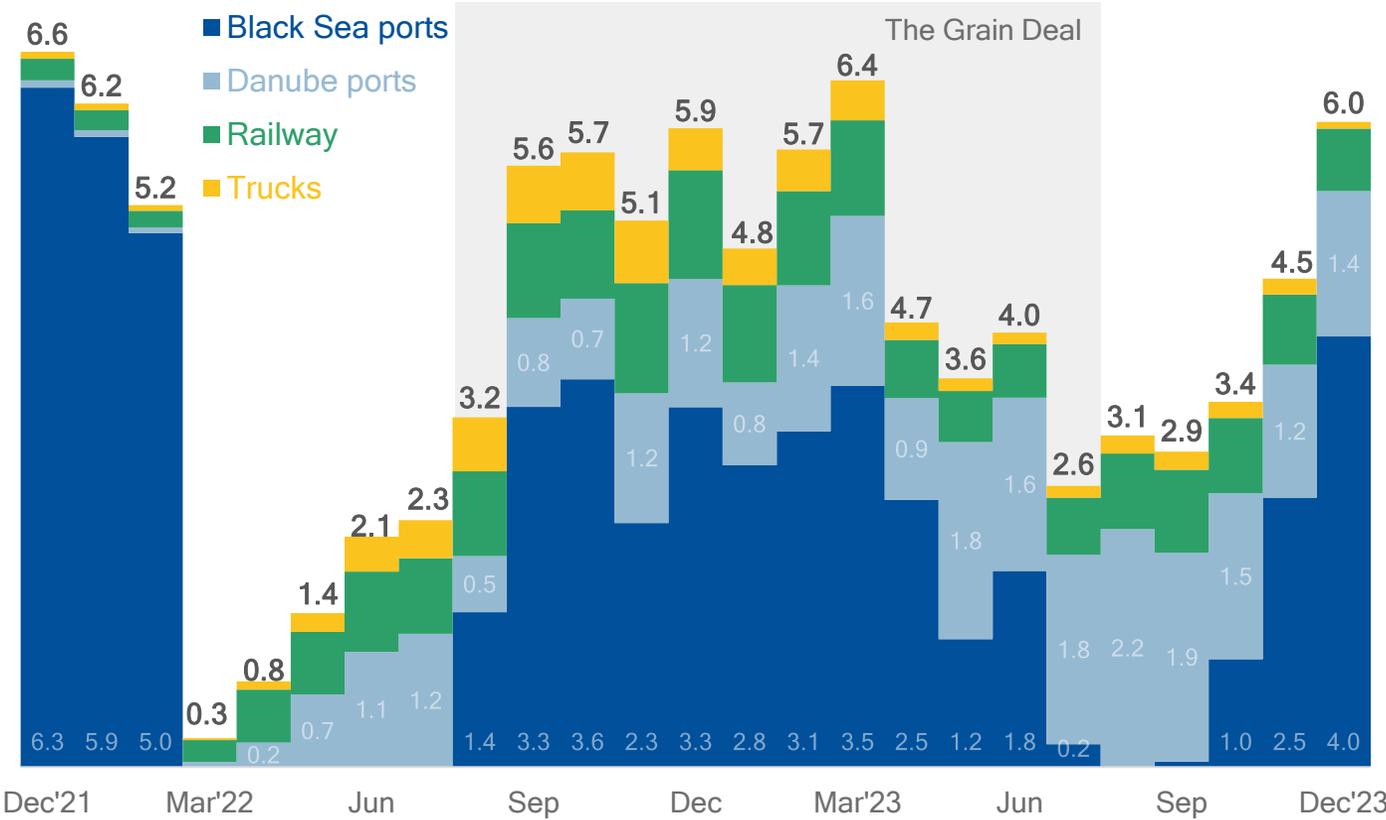
Source: Ukrmetalurgprom

- In December, steel production fell by 5% to 521 kt, while pig iron and rolled steel output is 2-3% up reaching 556 kt and 508 kt, respectively.
- Total steel production in 2023 fell by 0.6% to 6.23 mt.
- The Ukrainian Danube Shipping Company predicts that the company's share of iron&steel products transportation in 2024 may increase from 23% to 50%
- The highest loading in 2023 was recorded at the Zaporizhstal metallurgical plant - 70%. The company managed to increase production by 65% to 2.5 million tons and master the production of 14 new types of products.

# SECTORAL ANALYSIS

## Grain exports by sea higher than in Grain Deal period

Exports of grain and oilseeds by transport and total, million t



Sources: Ministry of Infrastructure, Ministry of Agriculture, State Custom Service, UN, Dragon Capital.

- The volume of exports of agricultural products by sea in December 2023 increased to 4 million tonnes, record-high since the full-scale invasion.
- Total volume of agricultural exports grew to 6 million tonnes (+32% m-o-m), only 9% lower than the indicator of two years ago recorded before the full-scale Russian invasion.
- Grain export by trucks fell to 60 kt in December due to problems on Polish border
- The new ships insurance mechanism for insurance of ships against war risks made it possible to reduce the price of grain transportation insurance to 1-1.25%
- The Ministry of Economy predicts the growth of agricultural exports by 9% in 2024

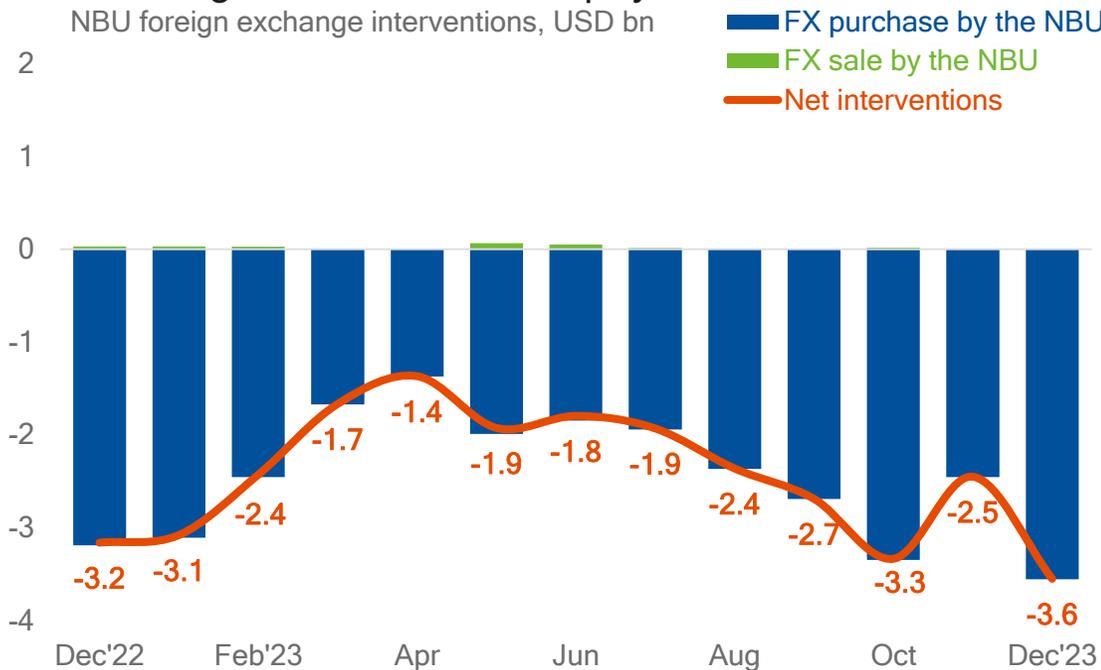
# MONETARY AND FX POLICY

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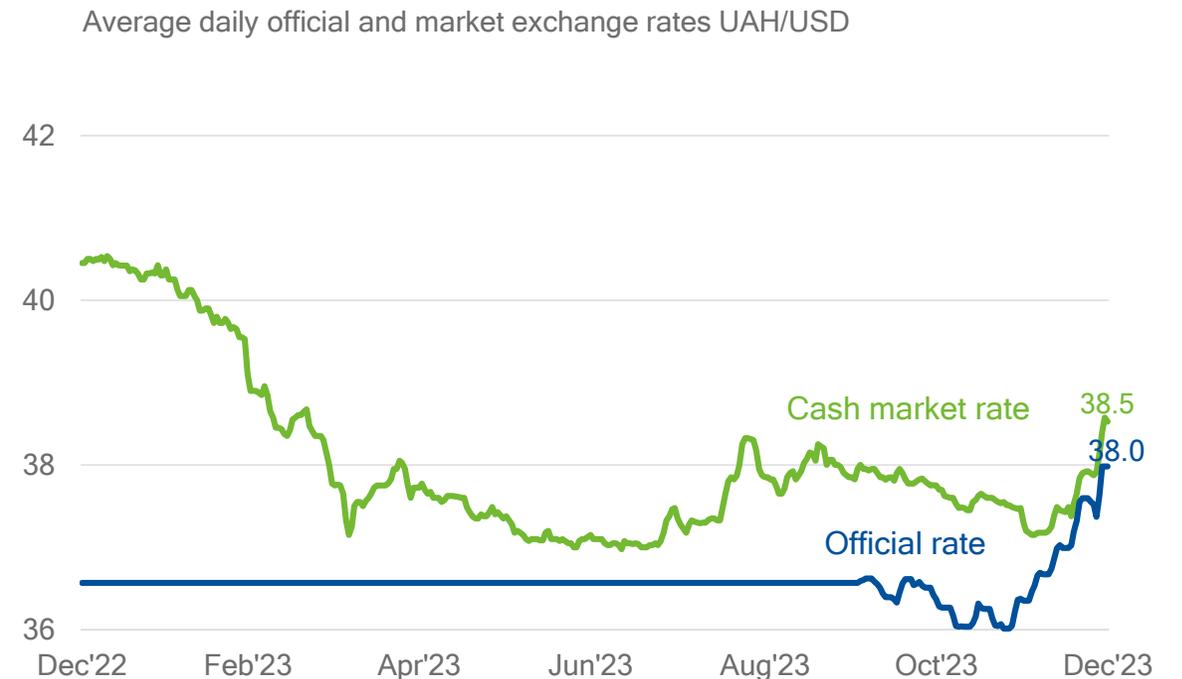
## International reserves increased and hryvnia devalued by the end of 2023

During 2023, **international reserves increased by 42%** to over USD 40.5 bn (5.4 months of import coverage) due to unprecedented financial aid to Ukraine. However, **there was still a need for significant FX sales** by the NBU to sustain the exchange rate and finance payments.

In 2023, NBU had been easing FX restrictions for businesses and households, and, in October, transitioned to the managed exchange rate flexibility regime. The cash rate was moving on both sides. The official hryvnia rate reached 38.0 on December 31, a new historic low.



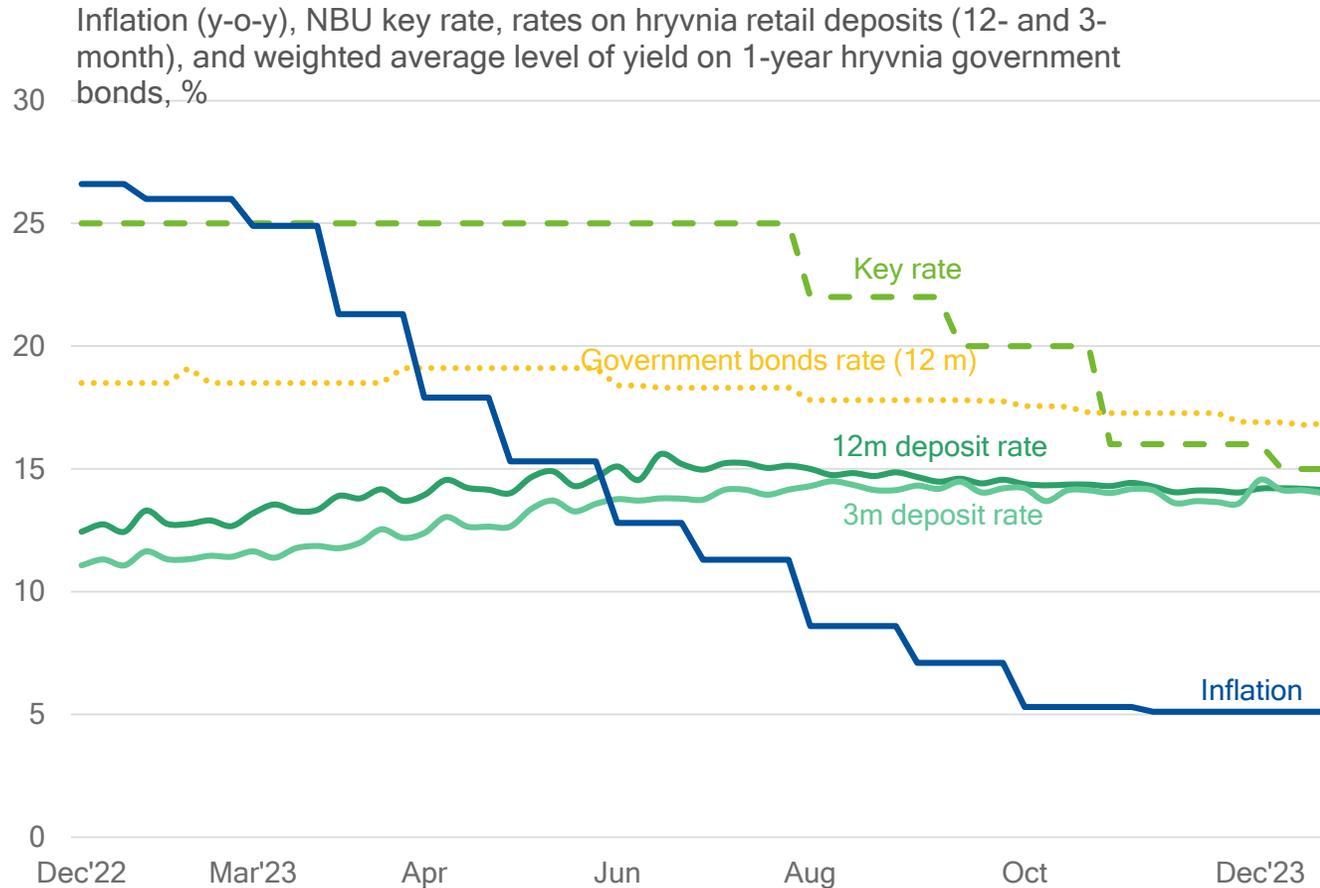
Source: NBU



Sources: NBU, Ministry of Finance

# MONETARY AND FX POLICY

## Key policy rate and inflation decreased

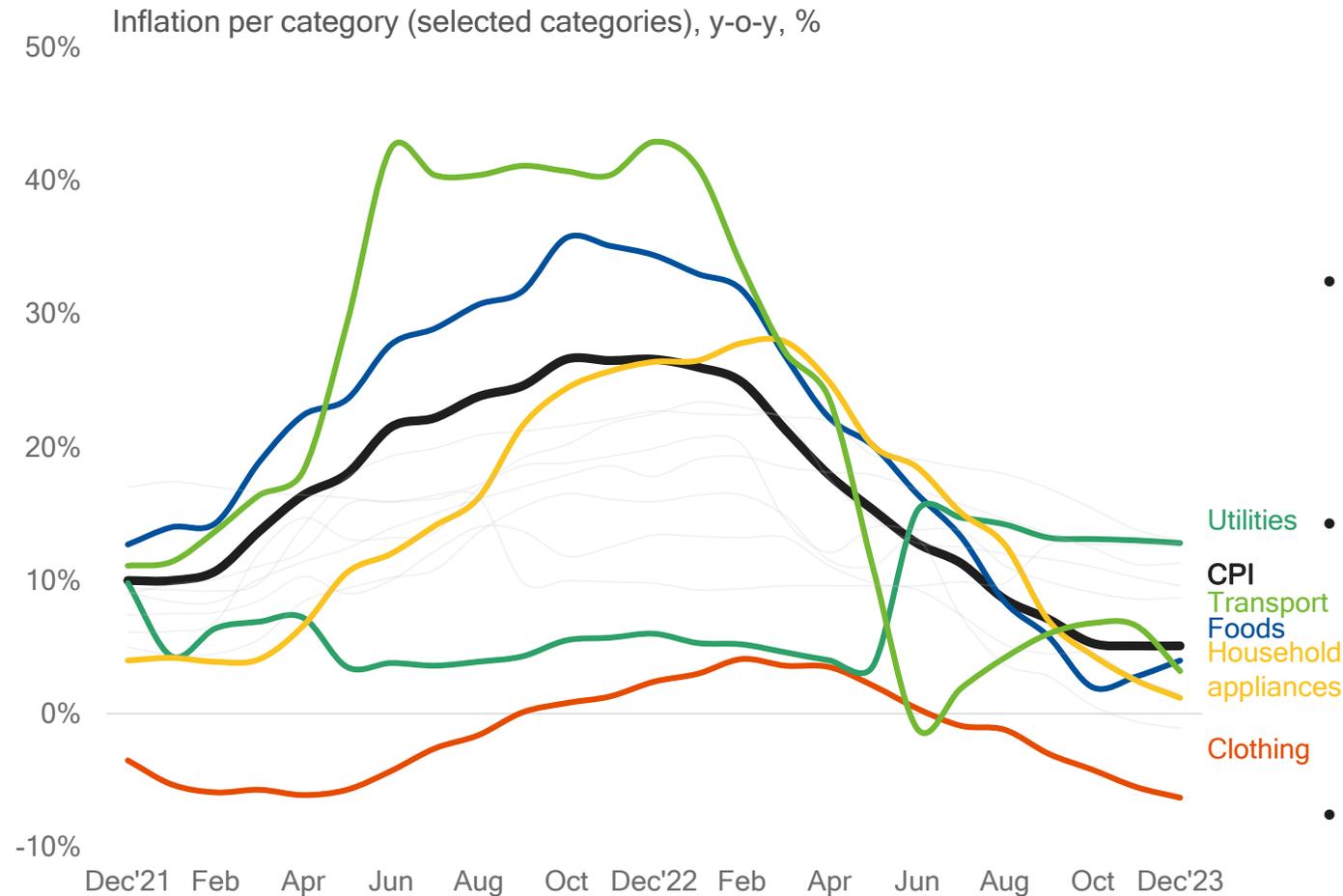


Sources: NBU, State Statistics Service,  
UIRD

- The key policy rate was cut from 25% to 15%. It became possible due to faster than expected inflation decline, inflation expectations improvements, and the FX market's adaptation to the new exchange rate regime.
- In October 2023, NBU modernized the operational design of its monetary policy in line with the lower-bound system.
- The yield of one-year hryvnia war bonds declined from 18.5% to 16.8%, in line with the decrease of the key policy rate.
- During 2023, the average rates on retail deposits for 3-month and 12-month deposits have been moving within the set level of key policy rate - increasing to its peak in July-August and taking a downward trend till December.

# MONETARY AND FX POLICY

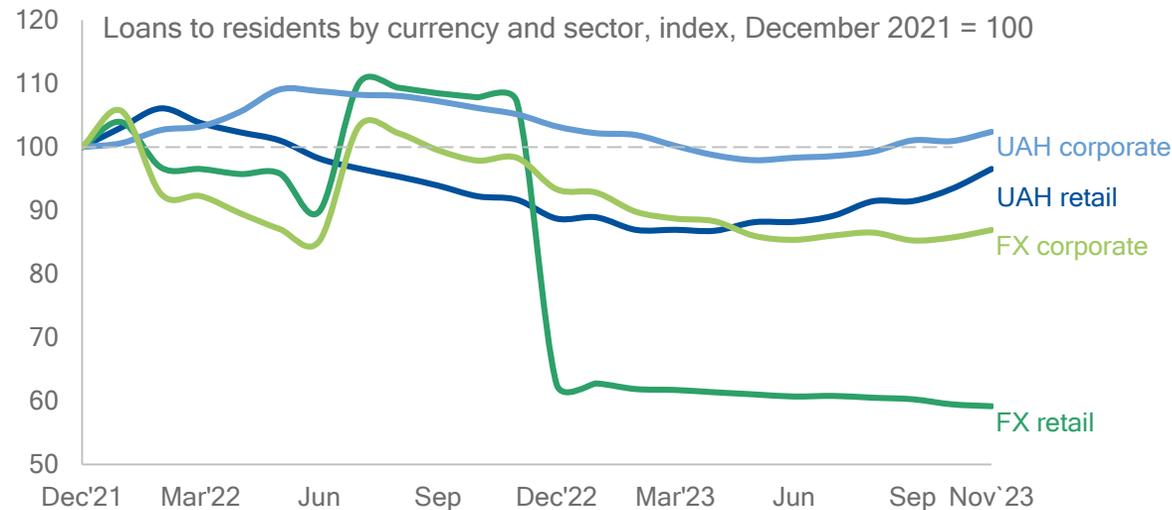
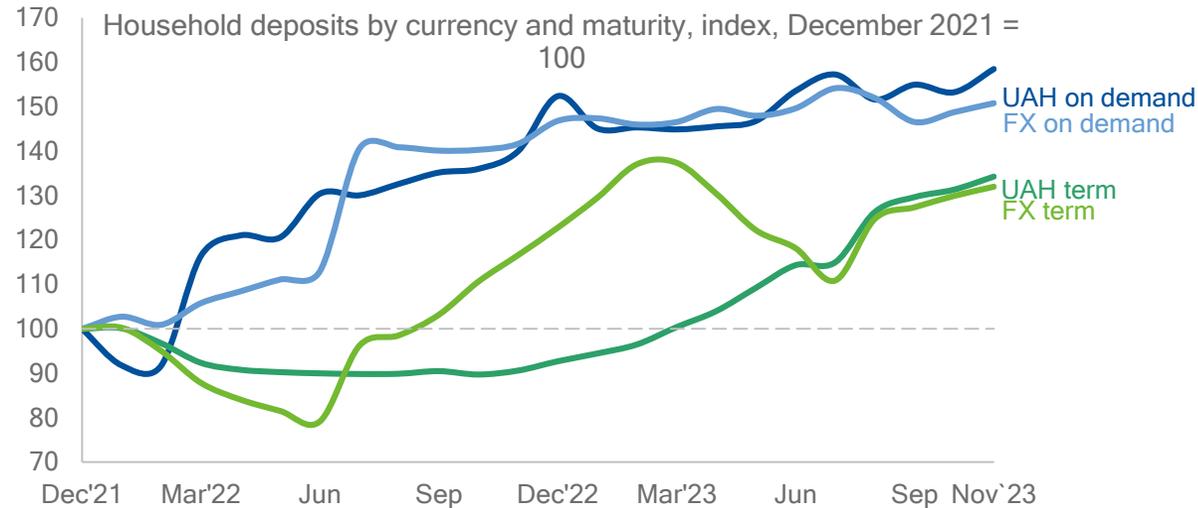
## Inflation slows down; CPI 5.1% y-o-y in December 2023



- In 2023, inflation declined from 26.6% to 5.1%, primarily due to a sufficient supply of food, preservation of a sustainable situation in the FX market, and upbeat inflation expectations.
- Over the past year, prices have fallen the most among such food products: sunflower oil (-14.9 %) and eggs (-9.5 %), and non-food goods - clothing and footwear (-6.3%).
- Prices have increased the most among meat (+12.4%), butter (+9.9%), and milk (+9.7%). Among non-food - electricity (+69.7%), ambulatory services, and restaurants and hotels (both +13%).
- However, in 2024, inflation is expected to accelerate due to the growth of business costs, further revival of consumer demand, and a low base of comparison.

# BANKING SECTOR

## Hryvnia loans and deposits are on the rise

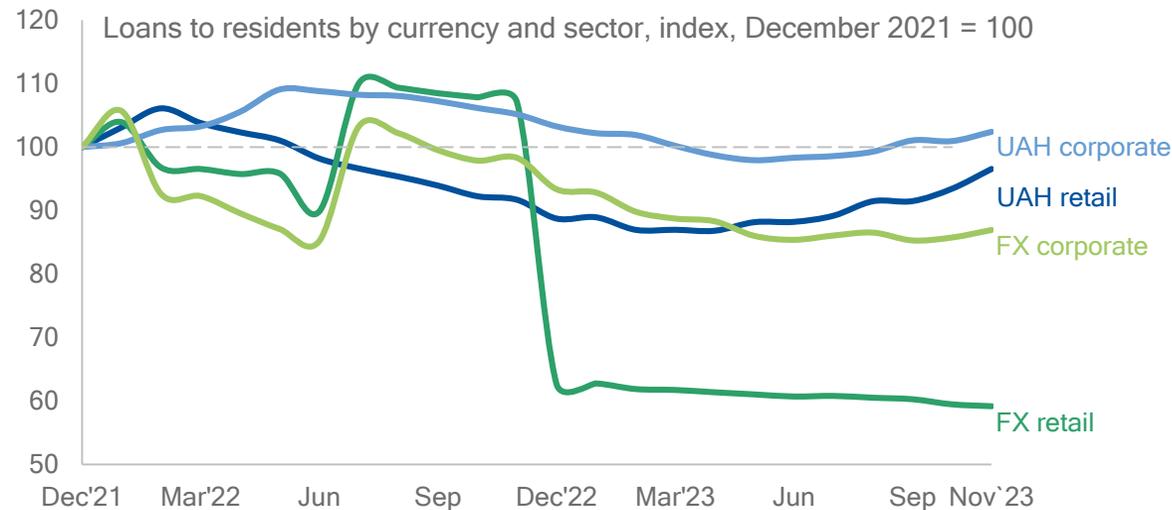
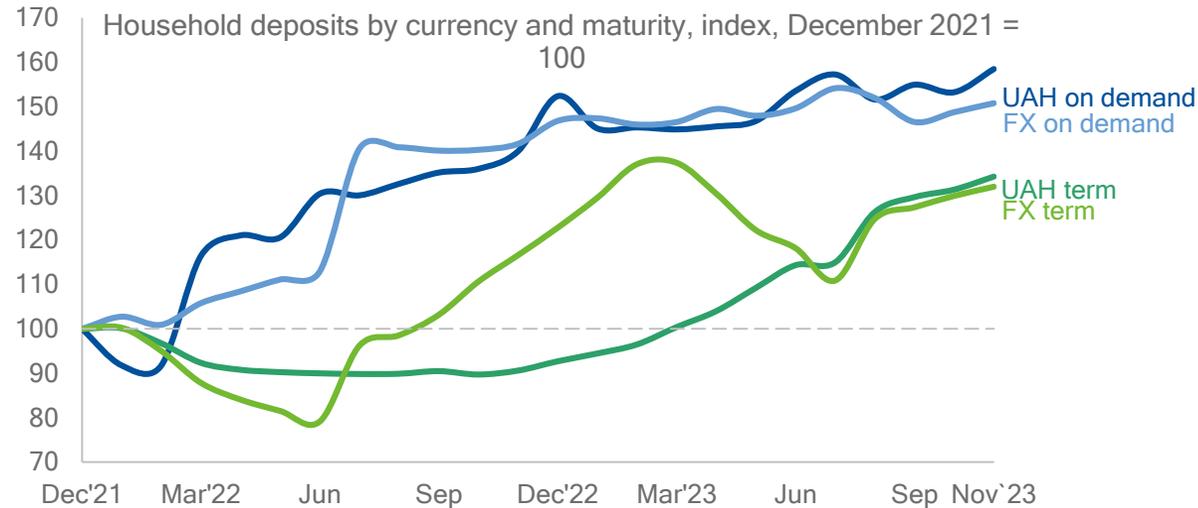


Source: NBU

- In 2023, the volume of household deposits has increased for UAH term and on-demand; FX-term after a significant decline resumed its upgrowth. Varied household deposit increase: private banks surge, foreign banks lag.
- The dollarization of clients' funds is steadily decreasing, reaching 31.9% in November, akin to pre-invasion levels. Hryvnia deposits, offering higher yields, have become more appealing, compensating for devaluation risks compared to less attractive FX deposits.
- The continued revival of economic activity has been fueling business demand for loans, primarily from trade and agriculture companies, in the last months of 2023.
- In contrast to hryvnia lending, FX lending has been stagnating. Since the full-scale invasion, the FX loan portfolio has shrunk by a third in dollar terms.

# BANKING SECTOR

## Hryvnia loans and FX-term and Hryvnia deposits are on the rise



Source: NBU

- The "Affordable Loans 5-7-9%" program has been driving lending, constituting about 40% of the net corporate portfolio in hryvnia. In 2023, banks executed over 26K contracts, totaling more than UAH 100 bn under the program.
- Lending to individuals has been steadily recovering since the spring of 2023. November was the ninth month of continuous growth of the net credit portfolio of households in hryvnia. The average rate of growth during this period was about 2.6% every month.
- Real estate and consumer lending are rising monthly due to increased credit demand, supported by improved lending conditions and consumer sentiment.
- As of December 1, 2023, NPLs were 37%, up 0.3 p.p. from December 1, 2022, while NPL volume decreased by UAH 6.4 billion.

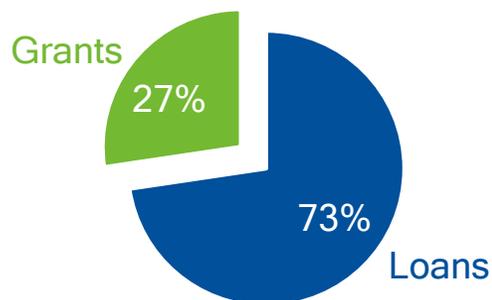


# FISCAL SECTOR

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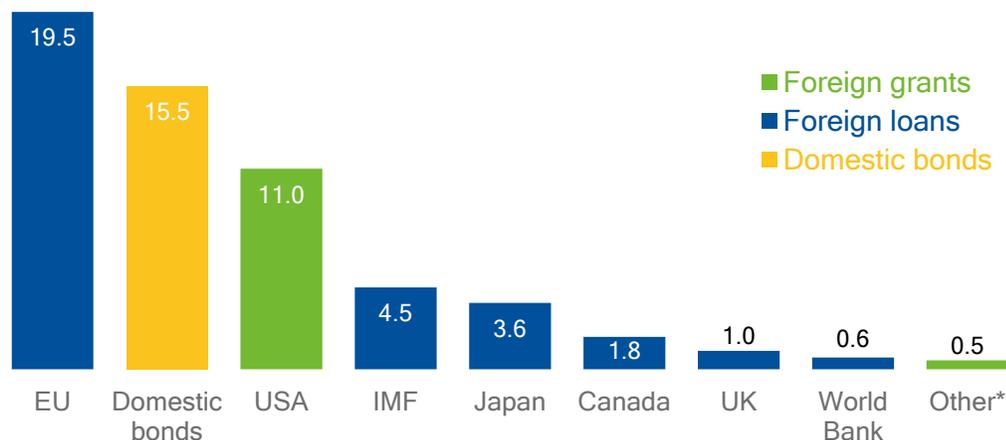
## \$42.5 bn of foreign financing in 2023

of which...



In December Ukraine received ~\$2.2 bn from Japan (\$0.2 bn in grants), \$1.6 bn in loans from the EU and \$0.9 bn in loans from the IMF, \$0.3 bn in grants from Norway, Germany, the US, and Switzerland, and \$8 mln from the World Bank.

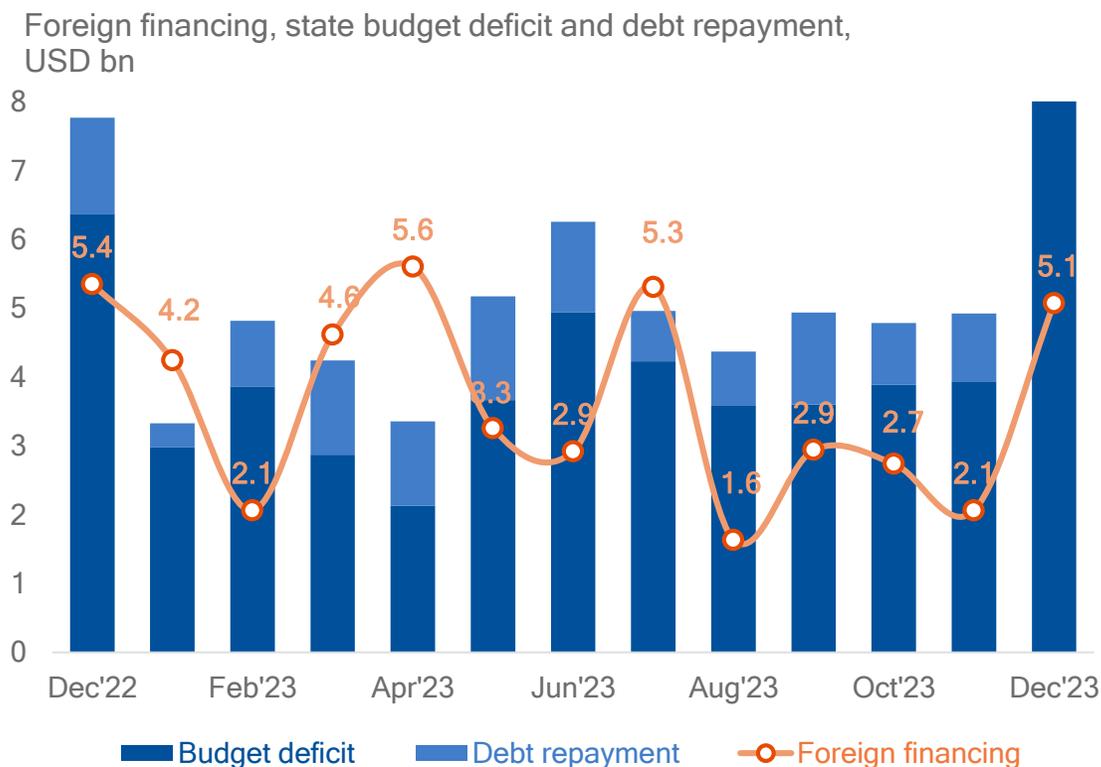
Additional financing of Ukraine's state budget in 2023, \$ bn



Source: Ministry of Finance

\*Germany, Spain, Finland, Ireland, Switzerland, Belgium, Iceland, Estonia

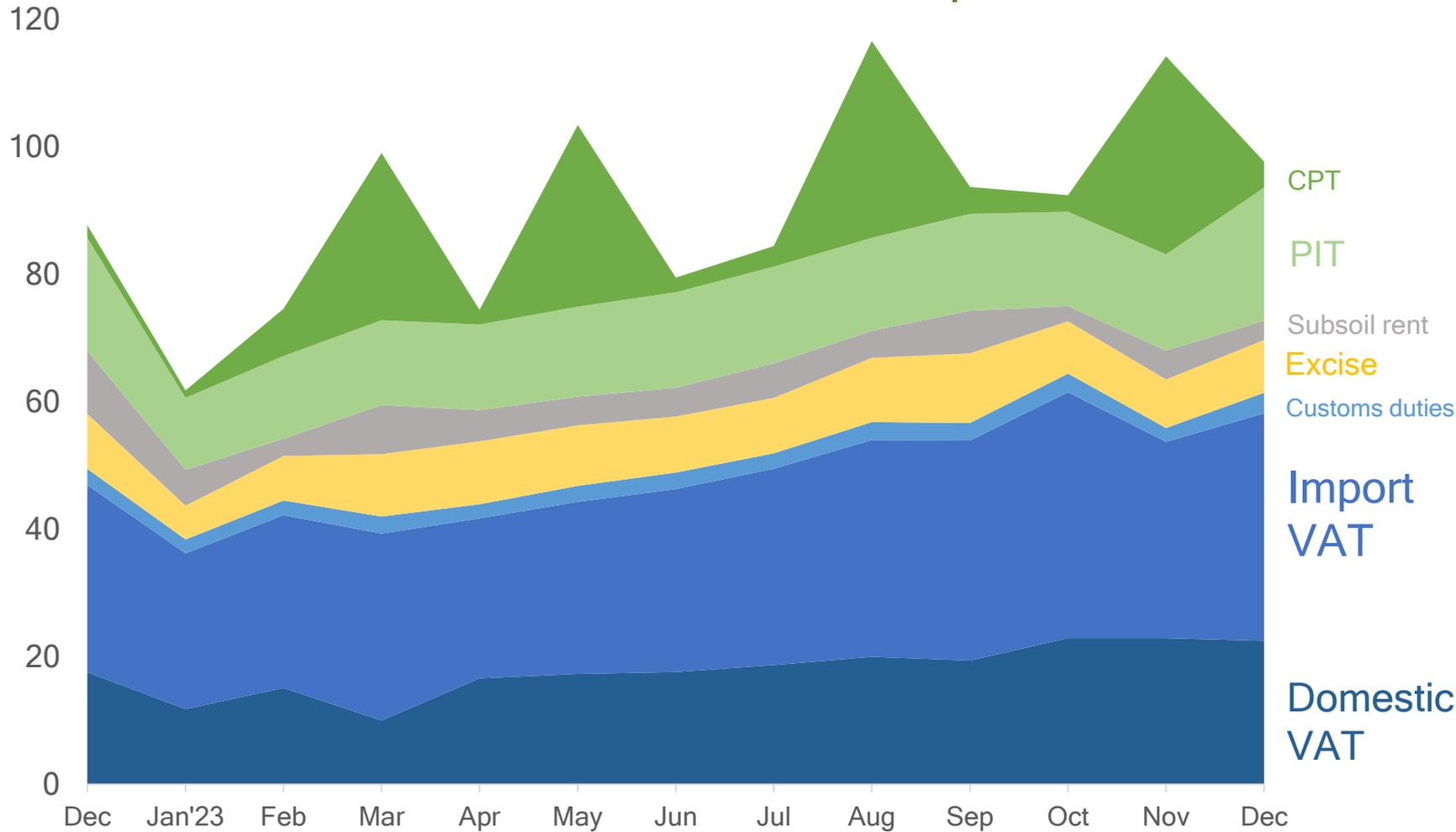
In 2023:  
Financing needs amounted to \$59.9 bn;  
Foreign financial aid covered 71% of it (\$42.5 bn), up from 56% in 2022.



Source: Ministry of Finance, NBU, CES calculations

# FISCAL SECTOR

## Solid tax revenues in December, as imports rebound, PIT record high



Tax revenues of state budget general fund in December were UAH 97.7 bn

- For the first time monthly PIT revenues exceeded UAH 20 bn
- Domestic VAT revenues remained level for the third consecutive month (UAH 22.5 bn)
- Import VAT rebounded to Aug-Sep levels (UAH 35.7 bn)

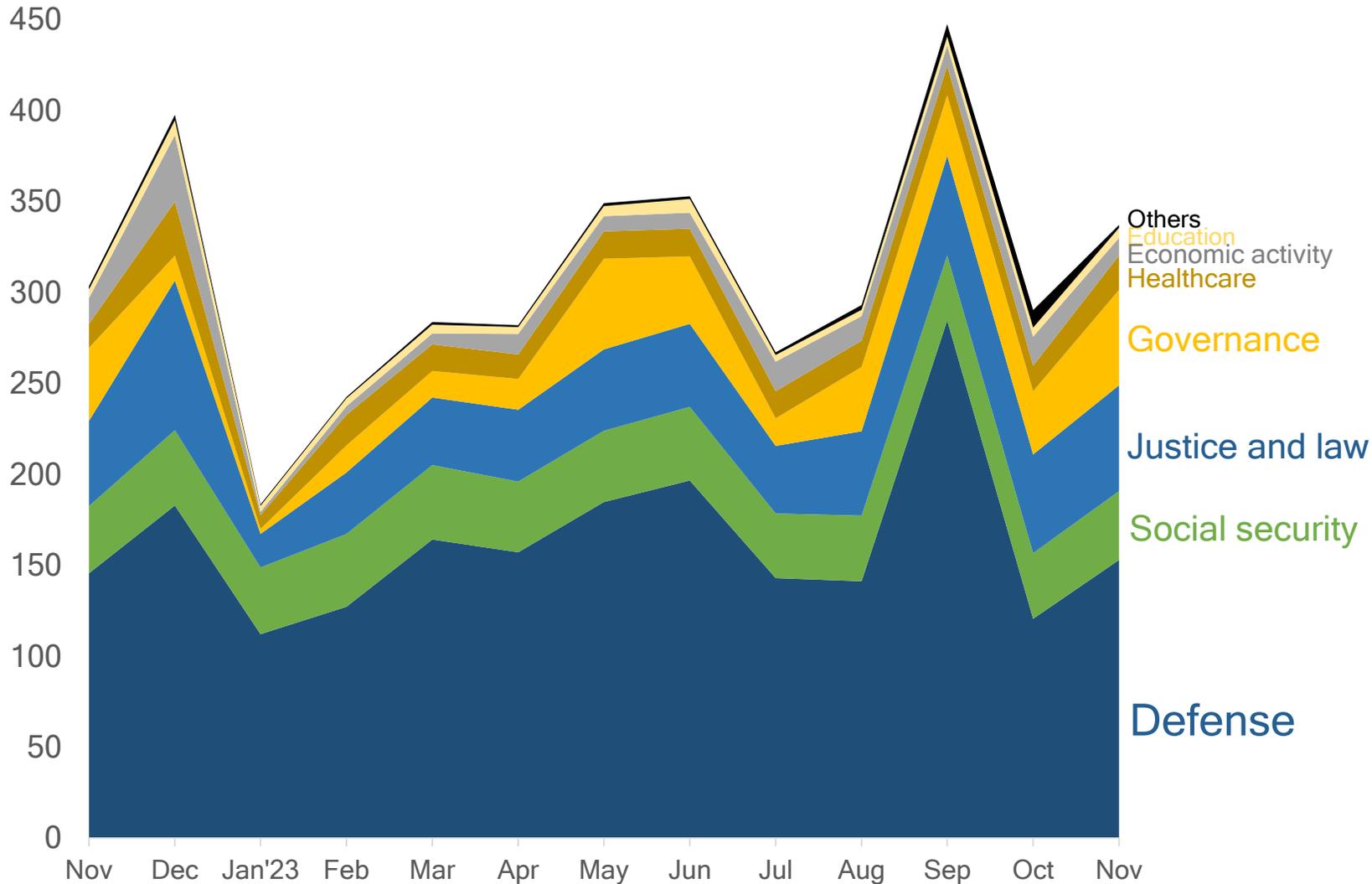
Total state budget tax revenues reached 18.2% of estimated GDP for 2023, vs 18.3% in 2022.

Local budgets estimated tax revenues reached 6.6% of GDP in 2023, vs. 7.6% of GDP in 2022.

Source: Ministry of Finance

# FISCAL SECTOR

## Defense spending down to the lowest since January

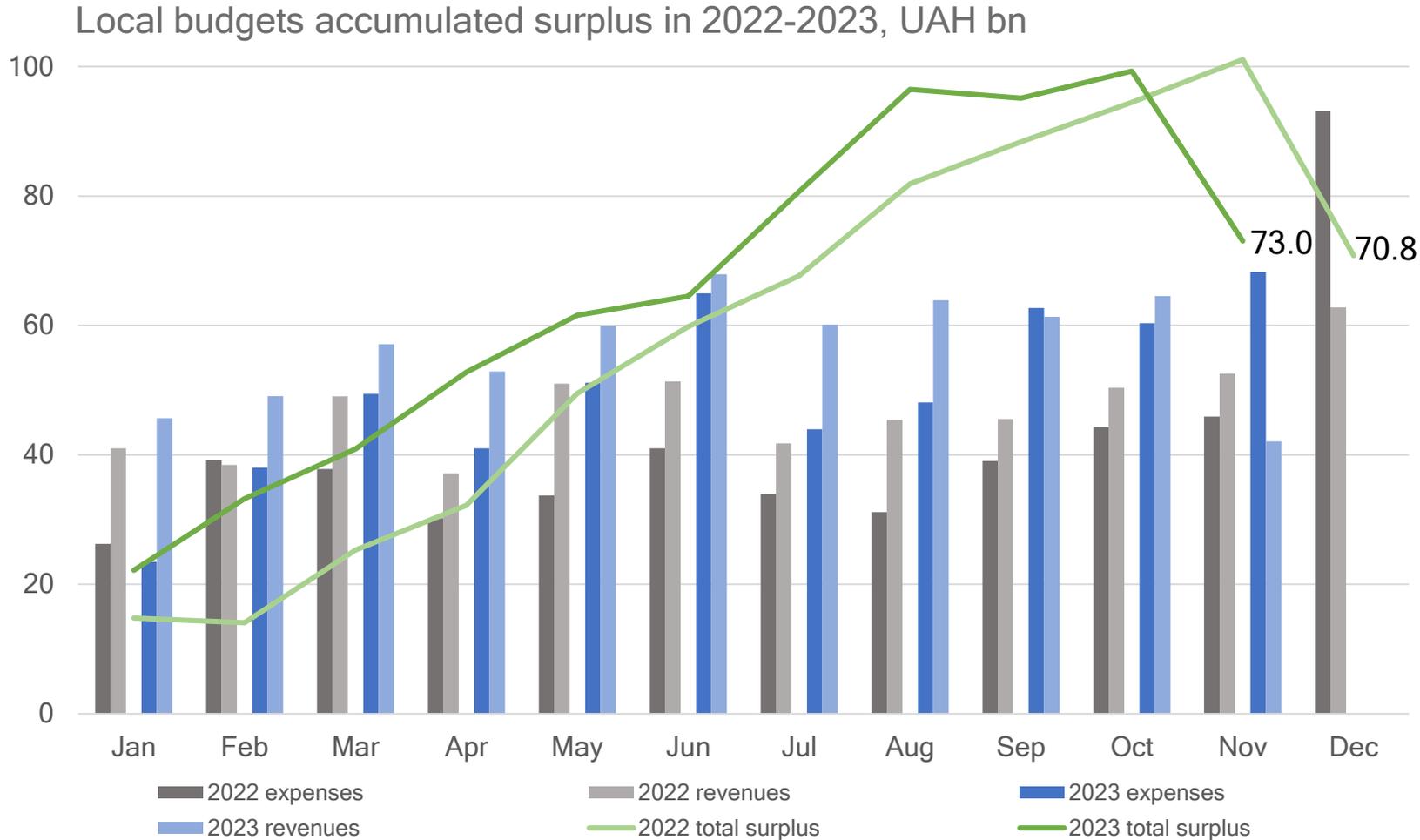


Source: Ministry of Finance

- Monthly defense spending rebounded to UAH 152 bn due to increase in procurements.
- Governance expenses increased MoM by UAH 17.7 bn, driven by increase in debt service by UAH 22.2 bn
- We estimate that defense expenses in 2023 will exceed 30% of GDP.

# FISCAL SECTOR

## Local budgets went into deficit spending



Source: Ministry of Finance, CES calculations

- In November local budgets went into big deficit, as revenues decreased by 1/3 MoM (PIT -17.2 bn, transfers from state budget -7.1 bn), while the expenses increased.
- The accumulated surplus for 11 months is at UAH 73 bn, but expected to further fall in December due to usual “spending spree”



THANK YOU.

*This text reflects the opinion of the authors and does not necessarily represent the views of the German Economic Team.*