NETWORK

UKRAINE MONTHLY REPORT

February 2024

Trump's unexpected intervention creates new worries over US funding

Powered by Ukraine Business News

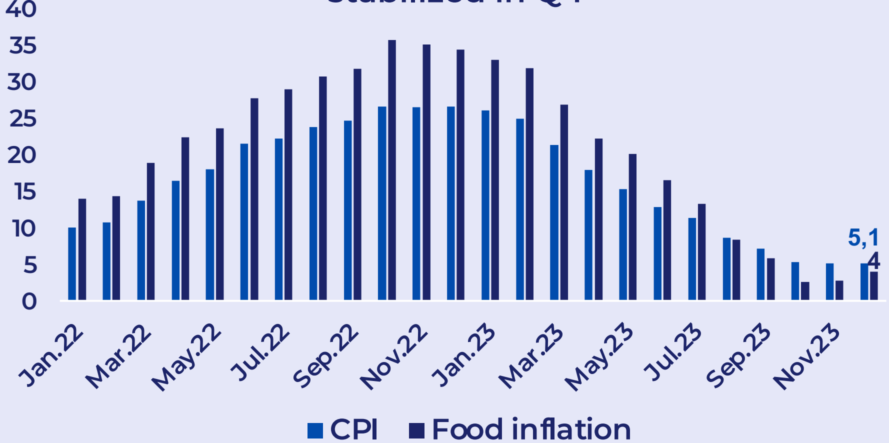
Forecast Summary

Forecasts as of February 1, 2024, subject to monthly revision

** Preliminary estimate*

	2021	2022	2023f	2024f	2025f
GDP, %YOY	3.4	-28.2	5.0*	5.4	6.0
Inflation, %YOY	9.4	20.6	13.4	8.0	7.5
Consumer Spending, %YOY	7.6	-16.9	6.0	7.5	6.0
Investment, %YOY	74.4	-34.0	5.0	11.0	16.0
USD:UAH (avg)	27.29	32.70	36.80	40.00	41.00

Inflation moderated across 2023 and stabilized in Q4



Forecast Revisions

No forecast revisions were made this month for 2024 or 2025

Ukraine Monthly Report

After a solid 2023, some improvements in the investment environment may drive further growth

BUSINESS & ECONOMIC TRENDS

- Preliminary estimates indicate GDP grew by 5% YOY in 2023 (after falling by 28.8% in 2022). Defense, retail trade, construction, and agriculture drove the growth. While defense and retail trade will continue to grow this year, some moderation in construction and agriculture is likely. In 2023, cafes and restaurants saw sales rise by 30% YOY while car sales rose 60% (and 9% in December compared to November), nearly back to 2021 levels, indicating the resilience of consumers into 2024. Retail traders forecast 10% YOY growth of sales this year, in part driven by stress/escapism. However, agriculture is expected to see a milder harvest in H2, which will sustain relatively high food inflation. Meanwhile, construction will improve from weak levels this winter, though restrained by high interest rates (15%) and lack of war risk insurance.
- Anecdotal evidence, supported by a recent EBA survey, suggests top issues for investors this year relate to capital controls, harmonization of Ukrainian standards/legislation with the EU, and risk insurance/investment guarantees. Positively, two of these issues are seeing some progress. After removing some currency restrictions last year, the National Bank announced the second stage of currency liberalization (easing of trade financing, paying interest on debts). The next stage later this year would involve the return on principal. In addition, the development of nascent war risk insurance schemes in late 2023 look set to come to fruition in H1 2024. In Q2, Ukraine's Export Credit Agency will make its insurance operational, while the World Bank, the US, and several European governments are setting up effectively pilot schemes to drive investment. Ukraine also launched a project to insure ships with top British insurers.
- External trade is seeing some improvements, though pressures continue. While a high trade deficit persists (the value of imports exceeded exports by 76% in 2023), Ukraine exported 99.8 million tons of goods in 2023, slightly above 2022 levels, and exports are expected to rise by 9% YOY this year. In Q4, the trade deficit moderated thanks to higher exports and lower imports from the blockade on the western border, which caused a 6% drop in customs payments to the budget and an economic loss of $1.7 bn. Some improvements are visible as three Polish checkpoints were re-opened, though delays and rising transport costs continue as the required high-level political intervention by the respective governments remains lacking, prolonging the crisis. More positively, sea exports are growing: in 2023, Ukraine exported one million tons more than in 2022 and exports via the Odessa ports in December reached pre-war levels. Since September, insurance costs are down 75% and some 500 ships have used the grain corridor. These exports will add over $3 bn to GDP (~1% of GDP) this year. Progress will continue as Russia is unlikely to attack due to not only the international condemnation but also the increased insurance premiums on its own ships.

WHAT IT MEANS FOR BUSINESS

- Improving exports will be critical towards helping protect the hryvnia this year, which in turn will gradually allow for further liberalization of capital controls, encouraging foreign investment and driving stronger economic demand.
- Risk insurance mechanisms should be monitored closely for effectiveness as they could cause a notable rise in investment starting in H1. Though interest rates will not come down notably this year with inflation still at relatively elevated levels, these programs would provide a critical investment boost to sectors in dire need of financing, namely construction and warehousing/logistics, among others. As the construction has a disproportionate impact on the broader economy, the benefits of hiked investment would spread widely.

Ukraine Monthly Report

After a solid 2023, some improvements in the investment environment may drive further growth

MAJOR DEVELOPMENTS

- Western funding remains unresolved to date. Positively, the EU looks nearly certain to approve its 4-year 50 bn euro funding program on February 1 (or otherwise in the coming weeks), providing Ukraine with assistance at a similar amount as last year, protecting the budget for most the year irrespective of other external funding sources. However, on the US side, pressure from Donald Trump, who seeks to campaign on a platform related to immigration and the Mexican border, has recently derailed a burgeoning agreement between Republicans and Democrats on the border that would have unlocked aid to Ukraine. While we still expect US funding to Ukraine to materialize, this new political hurdle has delayed a deal and increased the possibility of severely reducing funding. In addition, the fact that military support is unable to be sourced elsewhere would have dire consequences for the front lines, with reports already emerging that the ongoing delays are beginning to cause rationing of ammunition and artillery.
- In part inspired by Western fatigue over providing taxpayer funds to Ukraine, significant progress has been evident in confiscating Russia's ~$350 bn foreign exchange reserves and transferring them to Ukraine. The US government will soon pass a law supporting confiscation and transfer to Kyiv, while the UK and other governments have also voiced approval. With Belgium (where most these funds are held), Germany, and France the most (cont'd) hesitant in the EU, given the possible damage done to the euro's credibility as well as Russian nationalization of European assets, confiscation is still likely over time but delayed to later in the year. In the meantime, the EU has agreed to tax the profits of Russia's reserves and provide them to Ukraine. However, these minimal amounts ($3-4 bn/year, or one month of Ukraine's budget needs) is a step in the right direction but entirely inadequate.
- On the war front, little has changed in the past month as Russia's assaults continue across all fronts, though with inconsequential gains. In recognition of its strategic shortcomings, Zelenskiy has publicly supported moving to a more defensive strategy this year, defined by reconstituting Ukraine's forces, mobilizing more manpower, limiting offensives to preserve men and ammunition, and constructing its own Surovikin line of defensive fortifications along the existing front. Such a strategy would preserve Ukraine's fighting capability for the long term while revealing to Putin that his losses will continue with no prospect of advances. Continued air assaults on Crimea and in Russia itself, particularly against oil and gas facilities in recent weeks, will lower Russia's recently-found confidence from late 2023, bringing home to Russia the realities of an endless war in which victory on Putin's terms is not possible.

WHAT IT MEANS FOR BUSINESS

- Firms should create contingency plans for reduced US funding, which would not only weigh on general investor and demand confidence, but more tangibly over time would cause budgetary shortfalls leading to less support to the economy while causing greater hryvnia depreciation and thus inflation.
- In the event of an eventual seizure of Russia's reserves, there would be a range of potential responses by the Kremlin. Retaliation could be extreme (and highly unlikely) – use of a non-conventional weapon (nuclear, chemical, biological) in Ukraine – or more limited (and highly likely) – seizure of Western corporations' assets in Russia.

The UBN Network membership offers

UBN Network membership is available to Ukraine Business News readers

4 LIVE EVENTS IN KYIV / YEAR

- Discussions with panelists from different sectors, with 80-100 attendees
- Macroeconomic, political, and business briefing, including best management practices
- Forum for in-person networking and live benchmarking of issues and expectations

RESEARCH REPORTS AND SURVEYS

- 4 Benchmarking Surveys focused on Budgeting, Talent Management, Channel Management, Digitization, etc...
- 4 quarterly reports on Ukraine's political, economic, and business outlook
- Monthly reports with macroeconomic forecasts for Ukraine, as well as analysis for the broader region and global markets

NETWORK AND INSIGHTS

- Ad hoc webinars and two analyst briefings for your company with our in-house Ukraine expert
- Facilitation of introductions and relationship-building in the Ukraine business community

Please do not hesitate to contact us if you have any questions

NETWORK@UBN.NEWS