UKRAINE MONTHLY REPORT

March 2024

US funding and the Polish border dispute should be decided this month, making March critical for Ukraine

In partnership with European Business Association

Powered by Ukraine Business News

Forecast Summary

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

** Preliminary estimate*

	2021	2022	2023f	2024f	2025f
GDP, %YOY	3.4	-28.2	5.0*	4.7	6.0
Inflation, %YOY	9.4	20.6	13.4	7.5	7.5
Consumer Spending, %YOY	7.6	-16.9	6.0	6.5	6.0
Investment, %YOY	74.4	-34.0	5.0	10.0	16.0
USD:UAH (avg)	27.29	32.70	36.80	39.00	41.00

Consumer sentiment has moderated, in part related to the poor war trajectory

Forecast Revisions

Compared to the previous month, we have adjusted our forecasts for:

- *GDP*: Lowered 2024 given the weaker consumer spending and investment
- *Consumer Spending*: Lowered 2024 based upon some recent weakness in retail performance
- *Investment*: Lowered 2024 as souring domestic and foreign moods towards the market inhibits investment
- *USD:UAH*: Strengthened 2024 in the expectation of continued Western funding, improved exports, and lower imports from slower consumer spending
- *Inflation*: Lowered 2024 thanks to a stronger hryvnia and slightly less demand pressure

Ukraine Monthly Report

Growth continues into Q1, though budget and consumer spending are facing some pressures

BUSINESS & ECONOMIC TRENDS

- GDP rose by 3.5% YOY in January, below the level of most months in 2023, but still healthy. The growth was driven by ongoing public investment and logistics. Sea exports and the partial lifting of the blockade on the Polish border have also supported growth, with mining, metals, and food exports driving the trend. Notably, retail trade was reportedly solid, thanks to pensions and public salaries, but not the primary driver of growth. Inflation slowed to 4.7% YOY in January, the lowest level in over 3 years thanks largely to slowing global food and commodity costs. However, services sectors are seeing rising inflationary pressures driven by rising labor costs. The central bank has kept the key rate at 15% with no plans to lower the rate this year given expectations for higher inflation later in the year.
- Overall, budget spending was highly subdued in January due to delays in external financing. In January, Ukraine's foreign exchange reserves fell by 5% to $38.5bn due to interventions to support the hryvnia, debt payments, and reduced foreign aid. However, our view remains that vital external assistance will be adequate to sustain positive economic forecasts. With the budget adjusted to require $37bn in foreign aid this year (compared to over $40bn initially) funding will come from the following partners: $5bn from the IMF, nearly $20bn from the EU, $8bn from the US, and additional funds from the UK, Canada, Japan, and others. March will see $9bn arriving: $4.9bn coming from the EU, $900mn from the IMF's fourth tranche, $1.8bn from Japan, and $1.4bn from the World Bank, revitalizing budget spending and reserves.
- Some pressure on consumers has become apparent recently, as also evident from conversations with B2C executives. In January, the Consumer Confidence Index fell compared to December, to 76.4, continuing the gradual decline since the summer of 2023. Specifically, the assessment of consumers' current economic situation (as opposed to expectations of the future) drove the decline. Meanwhile, food and communal services amount to nearly 80% of family budgets: spending on food/drink averages 45%, utility payments at nearly 20%, and medical services and transport another 10%. With only 20%+ of income left after essentials, pressure on discretionary spending will rise.
- The border dispute continues with Poland and no resolution is likely this month. On the one hand, the situation has worsened in some ways (grain cargo dumped, more restrictions proposed by Poland, some border checkpoints closed once again) and recent high-level meetings yielded no resolution. However, talks over quotas continue and Polish officials indicated a deal could be done by April. Most critically, the top-level engagement required is appearing: Ukrainian PM Shmyhal met with his Polish counterpart Donald Tusk, while President Zelenskiy offered to meet with Tusk as well. With the EU set to unfreeze 137 mn euros in aid to Poland, Warsaw may be more flexible. In the south, agricultural exports in December and January – driven by the Black Sea Corridor – revived back to pre-war levels,. Encouragingly, in January, a ship insured against war risks exported goods for the first time.

WHAT IT MEANS FOR BUSINESS

- Businesses should feel comfortable well into H2 for continued macroeconomic stability, mild inflation, and a consistent hryvnia even in the event of severely reduced (or an end to) US funding. However, some business taxes could be raised to pre-emptively to cover budgetary shortfalls later in the year.
- Firms should prepare for some slowdown in consumer spending in H1 given the delayed Western funding and soured moods over the current status of the war. January also saw a slight moderation in consumer lending, indicating less willingness to make large purchases and incur debt. As consumer spending has been the primary driver of the economy lately, B2B demand will inevitably be negatively impacted should a notable slowdown materialize.

Ukraine Monthly Report

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

MAJOR DEVELOPMENTS

- US aid remains held up, with increasingly worrying consequences as seen in the further losses on the battlefield, including Avdiivka where fighting had been ongoing since early October. President Zelenskiy warned that the situation would become critical by April should US funding not arrive. Our view remains that Congress will pass the $61bn bill to aid Ukraine by early March, and should they not, various workarounds are available to procure adequate military support to stop the losses. Just as the EU overcame Hungary's objections to provide its 50bn euro package, the US is likely to pass the bill in light of the severe geopolitical implications in allowing Russia to win and encouraging China and other anti-Western powers. Even should US funding not pass this month, the entirely preventable Russian gains and the resulting humanitarian disaster and refugee flows, not to mention empowerment of China and others, would compel the US to pass a package later in the year to forestall a Russian victory.
- A new mobilization bill is likely to be approved in March, with mobilization starting in April, after an amended draft law was submitted to the Rada after much debate. Penalties for draft evasion will be tighter and summons will be done digitally to prevent draft dodging as the government seeks to get up to 500,000 new conscripts (though likely to fall notably short) to facilitate long-overdue rotations and demobilization of exhausted troops.
- The death of Alexey Navalny is serving to strengthen the resolve of Kyiv's Western backers, as indicated by the comments of numerous officials. His murder proves the nature of Putin and his regime and the inability to negotiate and compromise with the Kremlin. Thus, US aid becomes more likely and the moral argument for taking Russia's reserves is reinforced as Western leaders recognize the need to meet power with power.
- Assuming continued US support and greater manpower by summer, Ukraine's fortunes on the battlefield should improve after the recent losses and artillery/ammunition rationing. Large military aid packages from several European nations are coming, financing is being found for procuring 800,000 artillery shells, the US/EU are likely to tap into an inventory of millions of cluster munitions, while Germany's Taurus missiles (perhaps via re-export by the UK or France) are likely to arrive as well as other long-range missiles from the US. Meanwhile, 9 Russian planes were downed in late February, diminishing Russia's air supremacy, which will only further erode with F-16s arriving. For its part, Russia lacks the manpower, artillery, and transport to push notably beyond the current frontline before summer. Moreover, the public's resolve remains solid: over 70% of Ukrainians stated they are 'ready to endure the war for as long as necessary', the same level as in May 2022, while 85% believe in a Ukrainian victory (defined by most as a return to 1991 borders). Still, the longer the war drags on, negative impacts accrue. The UN noted the proportion of refugees intending to return is falling (77% a year ago; 65% now), with more noting their disinterest in returning. Political fallout is visible as well: the removal of the popular commander-in-chief of armed forces Valeriy Zaluzhniy, and replacement with the less popular but more politically loyal Oleksandr Syrski, is a worrying sign of disunity at a challenging time and has undermined Zelenskiy's support in the country.

WHAT IT MEANS FOR BUSINESS

- Even in the event of severely reduced Western aid to Ukraine, Russia would still be unable to take substantially more territory given its own considerable resource constraints. However, the sharp rise in fear of Russian advancement would destroy economic sentiment and dramatically erode demand.
- High labor costs and skills shortages are set to worsen by this summer, compelling firms to retrain staff for certain roles, pre-emptively hire additional capacity in advance of mobilization, and even curtail some operations to protect margins. Inflation will pick up further as firms cover their rising costs.

The UBN Network membership offers

UBN Network membership is available to Ukraine Business News readers

4 LIVE EVENTS IN KYIV / YEAR

- Discussions with panellists 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

UBN NETWORK

War & Business PT.2

MAR 15 · 10 AM · PARKOVY CONVENTION CENTER

ubn.news/ubn-network

Please do not hesitate to contact us if you have any questions NETWORK@UBN.NEWS