The World Bank in Ukraine

Country Snapshot

An overview of the World Bank's work in Ukraine

October 2018

UKRAINE	2017
Population, million	44.8
GDP, current US$ billion	112.9
GDP per capita, current US$	2,522
School Enrollment, primary (% gross) (2015)	103.9
Life Expectancy at birth, years (2015)	71.2

At a Glance

- Economic growth remained modest in 2017 at 2.5% for the second year in a row. Foreign investment and credit to the private sector were anemic.
- Going forward, macroeconomic vulnerabilities will continue to stem from Ukraine's significant financing needs and fiscal pressures due to higher public sector wages and social benefits.
- The unemployment rate remained steady in the third quarter of 2017 at 9.4% compared to 9.2% in the previous year.
- Real wages grew significantly by 19% in 2017 due in part to higher public sector wages. This, together with the real growth of pensions, led to a further decline in poverty to 5.7% in 2017 (according to US$5.5 per day, 2011 purchasing power parity) from 6.4% in 2016 and 7.8% in 2015.

Country Context

Ukraine has experienced acute political, security, and economic challenges during the past three years. Since the "Maidan" uprising in February 2014 that led to the ousting of the previous president, the country has witnessed several momentous events, including the outbreak of conflict in eastern Ukraine and presidential, parliamentary, and local elections.

The Government, which took office in April 2016, has committed to an ambitious and wide-ranging reform agenda.

Key reforms undertaken since 2014 include: carrying out significant fiscal consolidation, moving to a flexible exchange rate, reforming energy tariffs and social assistance, enhancing the transparency of public procurement, simplifying business regulations, stabilizing and restructuring the banking sector, adopting a health reform package, and establishing anti-corruption agencies and asset disclosure for public officials, all the while contending with powerful vested interests that continue to oppose reforms.

Although these are important steps, more needs to be done. Going forward, Ukraine will need to advance reforms on multiple fronts to achieve sustainable recovery and shared prosperity.

The World Bank and Ukraine

Ukraine joined the World Bank in 1992. Over the 26 years of cooperation, the Bank's commitments to the country have totaled close to US$12 billion in about 70 projects and programs.

In March 2014, after receiving a request from the-then Ukrainian Government, the World Bank Group (WBG) immediately announced its support for a reform agenda aiming to put the Ukrainian economy on a path to sustainability. The current International Bank for Reconstruction and Development (IBRD) portfolio consists of eight investment operations of roughly US$2.5 billion and one guarantee of US$500 million.

The World Bank and the authorities are implementing a Country Partnership Framework (CPF) for Ukraine for FY17–21 that supports the country's efforts to achieve a lasting economic recovery benefiting the entire population. The new CPF focuses on ensuring that markets work more effectively, establishing the necessary conditions for fiscal and financial stability, and improving service delivery for all Ukrainians.

Key Engagement

Responding to the crisis in Ukraine, in March 2014, the WBG announced that it would provide additional financial and technical support to the country. Since 2014, the Bank has supported the people of Ukraine through two series of Development Policy Loans (DPLs), seven new investment operations, and a guarantee amounting to approximately US$5.5 billion aimed at improving critical public services, supporting reforms, and bolstering the private sector.

The World Bank has supported high-priority reform measures to address the key structural roots of the current economic crisis in Ukraine and to lay the foundation for inclusive and sustainable growth through two series of budget support operations: the multi-sector DPL series (MSDPL-1, US$750 million, approved in 2014, and MSDPL-2, US$500 million, approved in 2015) and the Financial Sector (FS) DPL series (FSDP -1, US$500 million, approved in 2014, and FSDPL-2, US$500 million, approved in 2015).

WORLD BANK PORTFOLIO

- No. of Projects: 8 IBRD investment operations, plus one guarantee
- Total Lending: $2.5 billion, including $148 million from the Clean Technology Fund (CTF)

Reform measures aided by these four budget support operations promote good governance, transparency, and accountability in the public sector, as well as stability in the banking sector; a reduction in the cost of doing business; and the effective use of scarce public resources to provide quality public services at a crucial time. These operations also support the authorities in continuing to reform an inefficient and inequitable housing subsidy system while protecting the poor from tariff increases by strengthening social assistance.

World Bank investment projects have focused and will continue to focus on improving basic public services, such as district heating, water and sanitation, health, and social protection, as well as public infrastructure, such as the power transmission networks and roads. The Bank is also supporting Ukraine through policy advice and technical assistance on formulating and implementing comprehensive structural reforms.

In addition to financing several ongoing private sector projects, the International Finance Corporation (IFC) is implementing a large advisory program in the country, working to simplify regulations, improve the investment climate and energy efficiency, boost the completeness of local food producers, help open new markets, and increase access to finance.

Recent Economic Developments

Economic growth picked up to 3.4% in the first half of 2018, but investor confidence has been weighed down by delays in implementing key reforms and uncertainty related to the elections. Growth in the first half of 2018 was led by continued strong growth in domestic trade (around 5.8%) and an early agriculture harvest.

Growth in manufacturing and construction slowed to under 3% in the first quarter, pointing to weaknesses in investor confidence. Household consumption continued to grow rapidly by 5.6% in the first quarter due to higher pensions and wages (higher wages in the public sector and also in the private sector as a consequence of labor migration).

The fiscal deficit remained on target at 2.3% of GDP in 2017, but fiscal vulnerabilities re-emerged in 2018 due to substantial financing needs and higher spending on wages and social assistance. Despite the on-target fiscal deficit, expenditures were up by 11.7% in real terms because of the doubling of the minimum wage and a more than 40% increase in the wages of teachers and doctors, as well as higher spending on social programs that reached 5.7% of GDP.

Poverty remains above pre-crisis levels but is estimated to have declined in 2017. Real wage growth remained high at 12.5% year-on-year in the first half of 2018 due to the higher public sector wages and economic recovery. The unemployment rate also declined marginally to 9.7% in the first quarter of the year from 10.1% in 2017. Pensions increased by 6.7% in real terms (annual average, adjusted for CPI) in 2017 after contracting in real terms three years in a row.

The resulting increase in real household income translated into a decline in poverty (consumption per capita below US$5.5 per day in 2011 purchasing power parity) to 4.9% in 2017 from 6.4% in 2016 and 7.8% in 2015.

Economic Outlook

The growth outlook depends critically on the implementation of recently approved reforms but faces headwinds from the 2019 elections, a more difficult financing environment for emerging markets, and Ukraine's major financing needs.

The turbulence in the emerging markets has worsened external conditions for Ukraine, and terms of trade are also projected to soften further.

However, implementing the recently approved reforms (establishing the High Anti-Corruption Court, strengthening the governance of the state-owned banks, making progress on resolving nonperforming loans), reaching an agreement with the International Monetary Fund (IMF), and demonstrating the ability to meet major financing needs are all expected to support investor confidence.

Under this reform scenario, growth is projected to strengthen to 3.3% in 2018 and to 3.5% in 2019 and rise above 4% in 2020–21 after election-related uncertainties abate.

Ukraine faces major financing needs in 2018–20 that will require the mobilization of sizable international financing and the capacity to meet the fiscal deficit target of 2.5% of GDP to maintain macroeconomic stability. Debt repayments (to the IMF, Eurobonds, and domestic bonds in foreign exchange and local currency) and financing the fiscal deficit will require 7.7% of GDP per year.

To raise the necessary financing, it is critical to maintain reform momentum and reach an agreement with the IMF. Meeting the fiscal deficit target of 2.5% of GDP in 2018–20 will require careful implementation of reforms in the areas of pensions, education, health, and housing utility subsidies.

Project Spotlight

Hand of Help

The Hand of Help project helps people who were internally displaced as a result of the conflict as well as poor Ukrainians.

Since the conflict in Donbas in the eastern region of Ukraine in 2014, 2.7 million persons have been displaced and over 4 million directly affected by continuing hostilities.

To assist with Ukraine's recovery, the World Bank introduced a pilot project called the **Hand of Help,** under the ongoing Social Safety Nets Modernization Project. The Hand of Help pilot provides US$2,250 in micro financing to help people who were internally displaced as a result of the conflict as well as poor Ukrainians more generally.

This project is currently being piloted in the Kharkiv, Poltava, and Lviv regions and in some territorial communities in the Chernihiv, Zhytomyr, and Donetsk regions. Since summer 2017, 282 people have started new businesses thanks to the Hand of Help.

Many participants have started businesses in the veterinary and publishing professions, the construction sector, the car repair and beauty industries, tourist services, etc. Most entrepreneurs already have experience in their selected industries.

Agriculture is the second most popular sector, as many entrepreneurs are engaged in the production of food, furniture, footwear, and clothing. To receive financing under the project, Ukrainians need to explain and defend their ideas and business plans.

In addition to funding, new entrepreneurs receive professional support and advice during the implementation of their projects.

If the participant employs at least two poor people, internally displaced persons, or war veterans, the financial support provided is irreversible.

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