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STATE OF UKRAINE'S ECONOMY AND PROSPECTS FOR ITS RECOVERY IN 2023

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STATE OF UKRAINE'S ECONOMY AND PROPECTS FOR ITS RECOVERY IN 2023

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SOCIO-POLITICAL CHALLENGES AND ATTITUDES ON THE WAY TO UKRAINE'S RECOVERY

Ukraine is undergoing a deep social and economic crisis provoked by Russian aggression. At the same time, Ukraine's struggle for freedom and independence has improved awareness of its civilizational choice, becoming an additional incentive for the democratisation and economic transformation.

The war produced a largely differentiated impact on the world order, as it affected various countries differently, prompting different responses.[1] Leading nations and formations — the US, EU, NATO, as well as international financial institutions — the IMF, World Bank, EBRD and others — have found new directions for positioning and consolidation. For example, the war in Ukraine has restored the United States' special role in shaping and protecting the world order and prompted the EU to reconsider its attitudes to European security, including in financial domain. The West's successful demonstration of unity in countering the Russian aggressor forced China to abandon the paradigm of the East's growing set against West's weakening.

The Ukraine events have, in fact, hastened the strategic formation of two civilisational groups — democratic and autocratic — and shaped the ways in which these two worlds co-exist, including the choice of strategic partners, the values that these partners offer to the world, and the acceptable level of compromise between the declared values and economic benefits. At the same time, the requirements to economic policy's effectiveness are increasing not only to ensure growth and development, but also to recognise its inseparability from national (economic) security.

Today, in late spring 2023, there are reasons to believe that Ukraine will come out of the bloody war with honour. And it is 2023 when the basis for the country's sustainable socio-economic recovery will be established, especially if the socio-political and socio-economic transformations are understood and supported by the citizens.

Assessment of the government's practical actions and thus the direction of society's movement is expressively reflected in the results of sociological surveys regularly conducted by the Razumkov Centre. For example, in 2020-2021, almost two-thirds of Ukrainians indicated that events in the country were headed in the wrong direction. Moreover, these assessments during the «quiet» and fairly economically successful 2021 are essentially the same as those recorded during the coronavirus crisis year of 2020 (Table *«Events in Ukraine are headed in...»*). In the autumn of 2022, however, amidst fierce fighting and increased intensity of Russian bombing of Ukrainian territories,[2] already more than half of respondents confirmed the correctness of the country's movement, which could be explained by society's unity in its struggle for freedom and independence.

[1] For more detail, see Political, economic, and structural consequences of Russian aggression for Ukraine and the international community. Challenges of Ukraine's economic recovery in the post-war period in view of European integration priorities /Kyiv: Razumkov Centre, April 2023.

[2] This refers to the massive bombing of critical infrastructure for the life support, including electricity, water and heat supply, which becomes vital in winter. In November, Ukrainian cities and villages switched to metered electricity supply, with rolling blackouts and emergency power cuts becoming commonplace. In addition to inconveniences for households, long-term electricity restrictions have meant shorter production hours for many industrial enterprises and virtually all consumer services, which has meant a deterioration in people's welfare.

EVENTS IN UKRAINE ARE HEADED IN THE RIGHT OR WRONG DIRECTION,
% of respondents

	09'20	05'21	09'22	11'22	01'23	02-03'23
Right direction	19.7	21.5	51.0	51.2	58.9	60.6
Wrong direction	60.4	59.6	27.8	29.4	23.6	21.0
Hard to say	20.0	18.9	21.3	19.4	17.5	18.5

Already in February-March 2023, with the first signs of Ukrainian Armed Forces' preparations for a counter-offensive to liberate the country, positive assessments exceeded 60%.[3]

Despite heavy losses and destruction, current economic situation in the country, is not a collapse. Of course, the September-October 2022 assessments look worse than those of May 2021, when the country had almost shaken off the coronavirus concerns, but the overall balance of positive and negative assessments in September 2022 is almost the same as in September 2020 (Table *«Assessment of the Economic Situation»*).

Even more surprising is the balance of positive and negative responses in February-March 2023, which is better than that in the spring of peaceful 2021. In general, recent surveys show the respondents' belief that the country will be able to overcome problems and difficulties within a few or more years, and the economic situation will improve in 2-3 years.

Of course, the improvement in public expectations is a positive signal for the economy. Therefore, now it is important to formulate a vision of transformations aimed at a qualitative renewal of the country, which will then be reflected in macroeconomic indicators,[4] even though things that are happening in the world and may have an impact on our economy are extremely unpredictable.[5]

GEO-ECONOMIC SPACE FOR UKRAINE'S ECONOMY IN 2023

Socio-economic transformations are largely determined by Ukraine's ability to cooperate with international financial institutions (IFIs) effectively and successfully, especially the IMF. In particular, in its Memorandum with the IMF, Ukraine committed to take measures for expanding investment opportunities, strengthening

ASSESSMENT OF THE ECONOMIC SITUATION,
% of respondents

	9'20	5'21	9'22	11'22	12'22	02-03'23
Very bad	24.2	22.1	21.5	25.4	22.4	15.7
Rather bad	38.8	37.9	43.0	42.0	44.8	39.6
Neither bad not good	32.4	32.2	28.9	25.9	27.6	36.8
Good	2.3	4.7	3.7	2.5	2.4	4.0
Very good	0.4	0.7	0.5	0.4	0	0.3
Hard to say	1.9	2.4	2.5	3.8	2.9	3.5
Balance: (good+very good) – (rather bad+very bad)	**-60.3**	**-54.6**	**-60.3**	**-64.5**	**-64.8**	**-51.0**

[3] Political, economic, and structural consequences of Russian aggression for Ukraine and the international community. Challenges of Ukraine's economic recovery in the post-war period in view of European integration priorities. / Kyiv: Razumkov Centre, April 2023.

[4] I. Burakovskyi. Ukraine: expectations from 2023. Theses. – Interfax-Ukraine, *https://interfax.com.ua/news/blog/894284.html.*

[5] Macro prospects: What awaits us in 2023? – CASE Ukraine, *https://case-ukraine.com.ua/publications/makroperspektyva- shho-nas-chekaye-2023-roku/.*

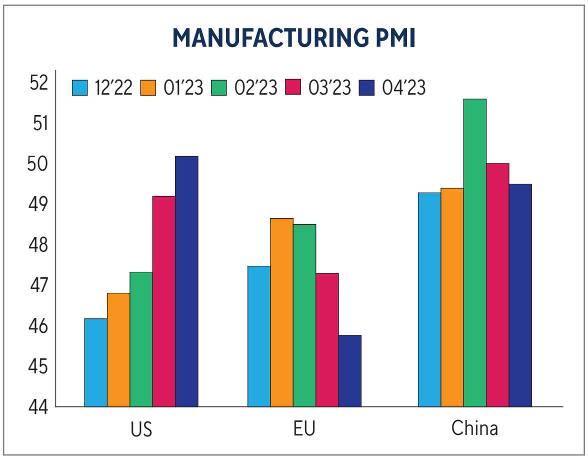
the energy sector, returning to a flexible exchange rate, reducing dependence on external financing, and bringing Ukrainian tax legislation closer to EU legislation. as soon as active hostilities subside.[6]

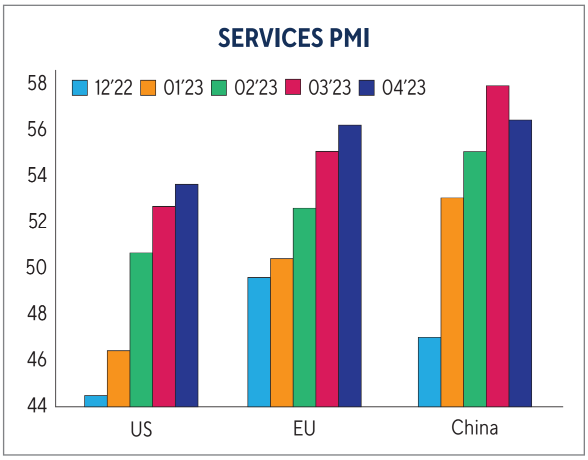
Implementation of these visions will be extremely difficult, especially with current geopolitical and geoeconomic space having a significant impact on Ukraine's political and economic environment.

Today's geoeconomic space is characterised by a rapid development of contradictory trends, including those caused by intensified competitive confrontations. As mentioned earlier,[7] current stage of globalisation is noted for the developed counties' massive attempts to «bring back» industrial production from emerging economies, where they were previously withdrawn as foreign direct investment (reshoring), to reduce economic contacts with opponent countries and expand cooperation with partner countries (friend-shoring), to step up cooperation within the integration and institutional formations, which, in addition to partner countries, involve countries that can become reliable economic and political partners (fragmentegration). All this should result in the creation of new value chains resilient to external shocks.[8] And the «old» supply chains, which were considered a sign of free trade and economic efficiency, are now becoming increasingly risky and vulnerable in the context of growing economic and geopolitical competition.[9]

In the early 2023, several factors were pointing at the high probability of the so-called multicrisis,[10] a declining mutual understanding between top countries leading to deteriorating economic conditions, mainly due to record high inflation, restrictions on trade and investment, and ultimately a reversal of years of global progress. But is it truly a characteristic of 2023?

First of all, the proclaimed risks of the largest economies and hence the global economy falling into recession or even depression at the end of 2022 proved to be exaggerated. And since the beginning of 2023, the main macroeconomic indicators have been showing a slight improvement (see Figures *«Manufacturing PMI»* and *«Services PMI»*).





[6] S.Kurchenko. The Marshall Plan no more: How the IMF sees the post-war recovery of Ukraine – Mind, *https://mind. ua/publications/20255748-plan-marshalla-skasovuetsya-yakim-bachit-mvf-povoenne-vidnovlennya-ukrayini?utm_source=eSputnik-promo&utm_medium=email&utm_campaign=Newsletter_07/04&utm_content=835332989.*

[7] Geopolitical and geoeconomics changes shaped by russian aggression and renewal of the place of Ukraine in the world / Kyiv: Razumkov Centre, 2022 p. – *https://razumkov.org.ua/uploads/article/2022_TRANSFORMANS_UKR.pdf.*

[8] Y.Yakymenko, V.Yurchyshyn. Asserting economic freedom in Ukraine – Razumkov Centre, *https://razumkov.org.ua/ images/2023/04/07/2023-MATRA-I-KVARTAL.pdf.*

[9] KPMG: review of geopolitical risk forecasts in 2023 – implications for business. – Mind, *https://mind.ua/publications/.*

[10] Simultaneous unfolding of several diverse crisis processes. – Paris Peace Forum 2022 – *Riding out the multicrisis, https://fpi.ec.europa.eu/news-1/paris-peace-forum-2022-riding-out-multicrisis-2022-11-10_en.*

This prompted IFIs to revise their forecasts of their core economic development indicators in 2023 (Table *«GDP Growth and Inflation in the world's leading economies»*).[11]

GDP GROWTH AND INFLATION IN THE WORLD'S LEADING ECONOMIES,
Forecasts in relevant months

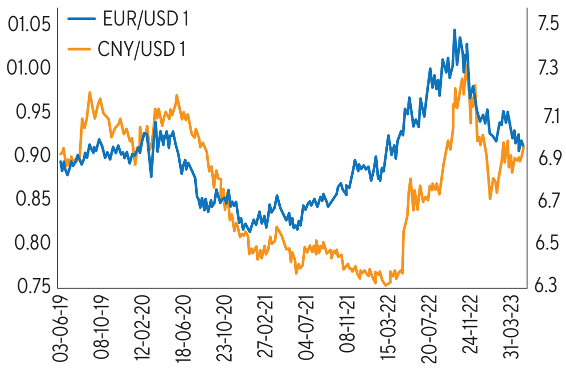
	GDP growth, % to the previous year		Inflation, average annual growth of consumer prices	
	December 2022	March 2023	December 2022	March 2023
US	0.8	1.3	4.0	4.2
EU	-0.1	0.6	6.0	5.5
China	4.5	5.1	2.0	2.5

An active anti-inflationary policy became an economic feature of 2022, with the increase in base rates by national central banks being one of the most effective anti-inflationary tools. Starting in March 2022, the US' Federal Reserve (FED) raised its base rate several times, reaching a record high of 5.25% in May 2023. Other central banks have largely followed suit.

The intensified competitive confrontation between the United States and China, the latter's active attempts to scale up de-dollarisation and replace dollar with renminbi in the emerging economies, as well as China's search for ways to expand its presence in Europe were other signs of 2022 and early 2023. In the economy, this was facilitated by a certain «synchronicity» of the euro and yuan currency markets (Figure «Euro and Yuan to Dollar Exchange Rate»), which reduced the likelihood of trade and investment imbalances between China and the EU.

In these confrontational settings, one should not ignore the important signal that the Ukraine war has sent to Europe, highlighting the risks and dangers of dependence on autocracy. While Europe's reliance on Russian energy resources has

EURO (left) **AND YUAN** (right)
TO DOLLAR EXCHANGE RATE



put considerable pressure on EU industry, especially that of Germany, China's policy of broad expansion into European markets, which increases dependence on Chinese production, brings significant risks to both economic and political environment of the EU and therefore requires effective safeguards. In the meantime, the energy transition may be also complicated by geopolitical factors. An accelerated transition to clean energy amidst strategic competition between countries will imply dealing with more complex and critical supply chains,[12] making global economic ties more complicated.

DOMESTIC REALITIES AND EXPECTATIONS

In Ukraine, 2022 will go down in history as a year of great trials and losses. 2023 is associated with the start of the country's recovery, which, however, may be hindered by a new escalation by Russia. Although citizens are quite pessimistic about the country's current economic situation (see the table above), this does not suggest an economic collapse. Moreover, since the domestic economy managed to retain a significant share of its potential in 2022, this gives grounds to believe that 2023 may be a year of the economy's gradual recovery even in the face of continued enemy attacks.

In confirmation of that Ukrainians are now witnessing a somewhat unique situation, where numerous sociological studies and

[11] Based on Credit Suisse's forecasts as published in the Global Economics Quarterly: Inflation remains the main problem, not recession risk, 30 March 2023.

[12] KPMG: review of geopolitical risk forecasts in 2023 – implications for business. – Mind, *https://mind.ua/publications/*.

surveys show a high level of civil society's support of government and its institutions. Obviously, this is largely due to the realities of the times, as society fully supports the authorities in the fight against Russian aggression. And this can be rightly viewed as one of key preconditions for the Ukrainian Armed Forces' military victories. Therefore, there is a growing need for continued transparency and meaningfulness in government decisions to support the country's accelerated recovery.

Key macroeconomic indicators. The economic meltdown caused by Russian aggression in 2022 has formed a very low comparison basis for the following years. Therefore, possible indicators of growth in 2023 should adequately take this factor into account. And in conditions of an extremely low comparison basis, even minor positive shifts can produce high relative scores.

The resilience of Ukraine's economy and the prospects for its recovery largely depend on the pace and scale of the priority restoration of critical infrastructure (energy, transport, water supply and sanitary facilities, etc.), the social sector (schools, kindergartens, etc.), and the housing stock. This requires appropriate human, material and financial resources. In this regard, reliable energy supply is a critical prerequisite for the resumption of economic activity and support of people's livelihoods.[13]

It is worth recalling that the NBU has revised and improved its medium-term forecasts for macroeconomic indicators, as presented in the quarterly Inflation Report for April 2023. More specifically, in 2023, real GDP is projected to grow by 2% (previously 0.3%), and inflation will slow to 14.8%. In the coming years, inflation will continue to decline, and economic recovery will accelerate, including due to lower security risks. In other words, the economy will return to a (weak) recovery.[14]

Such NBU forecasts seem rational[15] but still cautious, which is probably appropriate for the country's central bank. Meanwhile, the NBU acknowledges that after a 13.5% drop in GDP in Q1, Q2 is expected to grow

KEY MACROECONOMIC INDICATORS FOR 2020-2023

	2020	2021	2022	2023(f)
GDP, UAH billion	4 222	5 451	5 191	6 860
GDP, $ billion	156.6	199.7	159.0	178.1
GDP, % of growth	-3.8	3.4	-29.1	**4.0**
Unemployment (World Bank), %	9.5	9.8	30.0	20.0
CPI growth, % (Dec-Dec)	5.0	10.0	26.6	16.2
CPI growth, % (average)	2.7	9.4	20.2	17.2
Average annual exchange rate (official), UAH/$1	27.0	27.3	32.3	38.5
Balance of trade in goods and services, % of GDP	-1.5	-1.4	-16.3	-15.4
Current account balance, % of GDP	3.4	-2.0	5.0	1.4
Average wage, UAH/month	11 596	14 018	14 860	17 500
Final consumption expenditure, % of GDP	92.6	86.9	104.2	98.0

[13] It is clear that the restoration of energy facilities is only possible with the provision of effective air defences – I. Burakovskyi. Ukraine: expectations from 2023. Theses. – Interfax-Ukraine, *https://interfax.com.ua/news/blog/894284.html.*

[14] Inflation Report. April 2023 – *https://bank.gov.ua/admin_uploads/article/IR_2023-Q2.pdf?v=4.*

[15] In its early spring forecasts, the World Bank downgraded its estimate of Ukraine's GDP growth in 2023 from 3.3% to 0.5%, while the Ministry of Economy reduced it to 1%.

However, even these figures seem optimistic against the backdrop of the IMF forecast, which in early April predicted that «Ukraine GDP growth in 2023 will still maintain a negative trend and will be minus 3%...». However, the NBU significantly improved its forecasts in April.

by 15.9%, which, however, is due to a low comparison basis and compensates for the losses of the beginning of the year (when the comparison basis was formed based on January-February 2022 just before the Russian invasion). Therefore, Q2 and Q3 2023 may show much better macroeconomic dynamics, given that same quarters of 2022 were perhaps the most tragic for today's Ukraine.

We are still more optimistic about the development of the domestic economy in 2023 based on 2022 results — low comparison basis and already formed dynamics amidst the war. The main ideological difference between our forecast for 2023 and those of the government and IFIs is a **higher level of real GDP growth** and higher inflation,[16] and thus higher GDP deflator, which means slightly higher nominal GDP and higher budget revenues (Table *«Key macroeconomic indicators for 2020-2023»*).

The projected real GDP growth at 4% is primarily due to expectations of driving the enemy out of most of the country's occupied territories, renewed, albeit weak, economic activity in the liberated territories, and funding for Ukraine reconstruction projects under the Marshall Plan. Although these factors will still be weak, their results will still be noticeable against the backdrop of losses and destruction of 2022.

It is also important to achieve a social and psychological effect and improve well-being of households, which in turn will strengthen the country's stabilisation and recovery processes. Domestic demand will remain the main driver of the national economy, while fixed capital investment will grow thanks to the launch of Marshall Plan investments. Imports of goods and services will grow at a much faster pace than exports, including as a result of higher household consumption spending.

Favourable factors facilitating Ukraine's development still include the following:[17]

- ✓ reinforcement of the Armed Forces of Ukraine and beginning of liberation of the occupied Ukrainian territories, which will improve the security situation and encourage people to return to their lands (if these areas are suitable for life);
- ✓ continued provision of military and financial aid by developed partner countries, which will strengthen Ukraine's defence capabilities and form the basis for sustainable recovery;
- ✓ launch and implementation of international programmes and projects already in the autumn 2023 to rebuild Ukraine's economy (the so-called Marshall Plan), primarily through the restoration of physical infrastructure on liberated territories;
- ✓ improvement of the population's well-being, its better adaptability to enemy attacks, and increased optimistic expectations, which will be an additional factor and stimulant of production gains;
- ✓ return of Ukrainians who were forced to leave the country earlier, their readiness to be involved in production processes;
- ✓ increased cooperation between the National Bank of Ukraine and the government aimed at supporting the real sector.[18]

The following **inhibiting factors** also deserve attention:

- ✓ resumption of the practice of politicising economic decisions, including in favour of representatives of the current government;

[16] The main difference between our forecast and the NBU's April forecast is that GDP growth is 4% vs. 2%, inflation (December-December) is 16.2% vs. 14.8%.

[17] Political, economic, and structural consequences of Russian aggression for Ukraine and the international community. Challenges of Ukraine's economic recovery in the post-war period in view of European integration priorities / Kyiv: Razumkov Centre, 2023 – *https://razumkov.org.ua/images/2023/04/21/2023_04_consequences_of_the_war_for_ukraine.pdf.*

[18] Of course, the level of the National Bank's intervention in exchange rate formation, expanded lending, and the impact of expansionary monetary policy on macroeconomic balances remain debatable. And the post-war recovery requires maximum facilitation of access to financial resources for economic agents.

- ✓ increased administrative and fiscal pressure on domestic businesses under the pretext of filling the state treasury to meet military and social goals;
- ✓ impossibility of resuming economic activity in the previously occupied territories, lack of resources for social infrastructure that would encourage people to return from abroad;
- ✓ aggravated confrontation and contradictions between the state's fiscal and monetary approaches aimed at expanding the tax base and the policy of expensive resources on the one hand, and the interests of business development and stimulation on the other.

Exchange rate and inflation. In 2022, the hryvnia once again sustained a «predictable» shock in the first months of the invasion. Later, the situation on the FX markets, although challenging, remained under control. The NBU undertook significant foreign exchange interventions thanks to the assistance of international partners that provided Ukraine with $32 billion in 2022. There are reasons to expect this policy to continue in 2023.[19] However, the decline in production and its competitiveness undermines the fundamental foundations of the national currency's stability.[20] Therefore, the search for further strengthening of the currency environment lies in the production sector.

Meanwhile, no factors can now significantly affect the Ukrainian currency's stability in 2023. In turn, a rational currency policy should become an important stabilising factor in the entire economic environment, where a weak devaluation of the hryvnia will be acceptable (and in some respects, even desirable), reducing the risks of reserve leaching and capital flight and helping balance the supply and demand for currency in the cash markets. Given the extreme sensitivity of the domestic socio-economic environment to exchange rate dynamics, the hryvnia will hardly be released into «free float» in 2023. At the same time, moderate devaluation of the hryvnia in the autumn and winter to support domestic exports and reduce demand for cash from households means that inflation expectations are rising.

Although the effects of Russia-induced energy crisis will be felt throughout 2023, the main price shocks appear to be localised, which will be an important factor in easing inflationary pressures.[21]

Attempts to continue inflation targeting rhetoric when domestic businesses are in desperate need for resources look archaic.[22] The NBU projects that inflation in 2023 will be below 15%. If the key policy rate remains at 25% or even reduces to 20-22%, this means that the real lending rate for businesses will reach 15% at best. However, post-war recovery requires very different lending conditions. Therefore, the hope is that recovery grants will go some way to improving business conditions.

Employment/unemployment and wages. Employment and unemployment estimates look very controversial. According to the Ministry of Economy, the unemployment rate in Ukraine at the beginning of 2023 reached 30%, with 2 million Ukrainians looking for work and 2.7 million of those who fled the country because of the war but was ready to return and work.[23]

.[19] Economy in simple terms (based on the January 2023 Inflation Report) – *https://bank.gov.ua/ua/news/all/prosto- pro-ekonomiku-na-osnovi-materialiv-inflyatsiynogo-zvitu-za-sichen-2023-roku.*

[20] B.Danylyshyn. How to ensure economic growth in times of war – «Ekonomichna Pravda», *https://www.epravda.com.ua/columns/2023/03/3/697664/.*

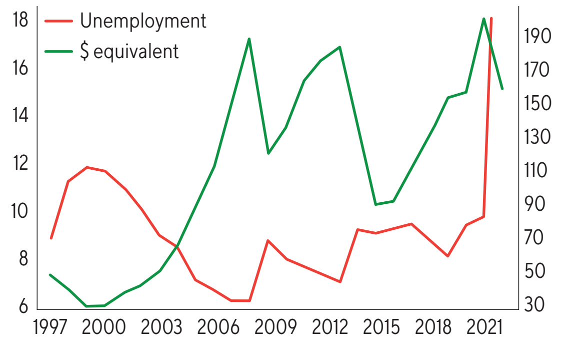
[21] ... the risks of importing energy inflation from Europe will also be reduced, as the EU is implementing consistent measures to balance energy supply and demand.

[22] Moreover, the NBU has in practice moved away from inflation targeting. Last year, to maintain a fixed hryvnia exchange rate, the NBU intervened heavily by selling foreign currency. This helped balance the FX market amid declining exporters' revenues and increased demand for imports, and thus restrain price growth.

[23] Unemployment rate in Ukraine is 30% – Ministry of Economy. – Ukrinform, *https://www.ukrinform.ua/rubric-economy/3654271-riven-bezrobitta-v-ukraini-stanovit-30-minekonomiki.html.*

In 2023, their return will hardly be massive and capable to significantly accelerate economic activity. However, positive economic dynamics, a relatively stable currency environment, and rising labour demand will be positive factors in both reducing unemployment (Figure *«Unemployment Rate and Dollar GDP»*) and increasing wages in autumn 2023.

UNEMPLOYMENT RATE (%, left)
AND DOLLAR GDP ($ billion, right)



During this period, the demand for skilled labour should increase, and in the face of a labour shortage (military, migrants), employers will be willing to increase wages. This, in turn, will serve as an incentive for Ukrainians to return from abroad, thus becoming a significant factor in economic recovery and GDP growth. As a result, nominal wage growth in 2023 will be commensurate with inflation, and the real purchasing power of wages will finally stabilise.

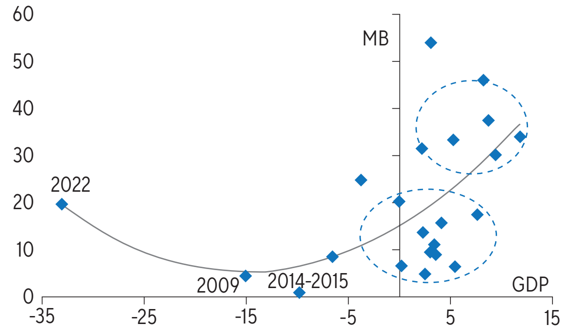
Expansionary monetary policy. In recent years, the money supply has been «locked up» in assets that were detached from the real sector's productivity.[24] For emerging economies that need economic acceleration, easy access to money resources is the most important thing, which can only be provided by the banking system through an expanded money supply (expansionary monetary policy). It is through consistent expansionary policy, which helps ensure the solvency of national economic agents, that countries manage to strengthen their economic environment and increase their economic potential for further development.

In Ukraine, however, the authorities have been very distrustful of this monetary policy, preferring the so-called inflation targeting instead.

According to expert observations, **expansion of money supply is a prerequisite for real economic growth** in Ukraine. Since 2000, Ukraine has achieved significant real GDP growth by 7-10% in years when the monetary base increased by 30-50% (Figure *«Real GDP and Monetary Base Growth in Ukraine»*). A limited (less than 10%) growth of money supply is associated with weak growth and even a decline in real GDP.[25]

It should be added that, given the extensive international assistance programmes, the expansion of money supply in Ukraine will be mainly due to (net) external assets, which significantly limits the risks of inflationary pressures.

REAL GDP (horizontal axis)
AND MONETARY BASE (vertical axis)
GROWTH IN UKRAINE,
% to the previous year



External sector. Foreign trade indicators have clearly undergone significant changes in 2022. According to the NBU, despite huge foreign trade deficit (both goods and services) in 2022, Ukraine had a significant current account surplus of $8.6 billion. This was due to a high inflow of resources under the so-called primary (mostly wages paid by foreign employers) — $9 billion, and

[24] B.Danylyshyn. How to ensure economic growth in times of war – «Ekonomichna Pravda», *https://www.epravda.com.ua/columns/2023/03/3/697664/.*

[25] Getting ready for monetary expansion/Kyiv: Razumkov Centre, February 2023 – *https://razumkov.org.ua/images/2023/02/28/2023- ANALIT-ZAPIS-Yurchyshyn.pdf*

secondary (partners' aid) — $23.4 billion of income. These two items of the balance of payments are evidence of the international community's unquestioning support and respect for Ukraine.

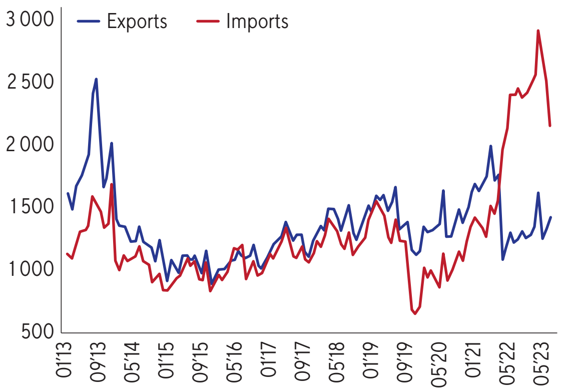
Ukraine has traditionally run a foreign trade deficit, and thus a current account deficit, which required the attraction of debt resources. There are some specific features that led to the changes, related to the war, significant losses, and international support for Ukraine.

In 2022, exports of goods have dropped by more than one-third compared to the fairly successful 2021, despite restrictions caused by the destruction of production facilities and the blocking of sea transport. The significant trade deficit in goods is within the «normal» range.[26]

However, this trend will require streamlining of institutional requirements in the agricultural sector and avoiding of dangerous precedents. On 15 April, Poland officially banned imports of Ukrainian agricultural products, followed by a similar decision by the governments of several other EU countries.[27] Although the ban is temporary, with a compromise solution being introduced relatively quickly, such decisions are extremely negative for domestic exports and Ukraine's positioning in the world, and will negatively affect cooperation with partners.

It is worth noting that in previous years, trade in services brought Ukraine additional resources, as exports exceeded imports in 2013-2021 (Figure *«Exports and Imports of Services»*); as a result, a certain share of the trade deficit in goods was covered by the traditional surplus in trade in services. In 2022 the domestic system of services collapsed because of hostile actions, and trade in services was essentially destroyed. Only thanks to partners entry (imports of services increased from $14.4 billion to $25.3 billion over the year) did Ukraine remain in the global services trade system, albeit with a $9.1 billion deficit.

EXPORTS AND IMPORTS OF SSERVICES,
$ million



The decline in exports of services was mainly due to transport services, namely of air, sea and rail transport services. And while the exports of rail transport have eventually somewhat recovered, air and sea transport will remain mothballed for a while, at least until the end of the war. Domestic companies have essentially lost their ability to provide international services and were «naturally replaced» by foreign businesses, as these services remain in huge demand. One can be very displeased with this situation, but in reality, it can be interpreted in a totally different way: this rapid replacement allowed the EU countries to assist and support Ukraine.

Therefore, the trade deficit in goods and services in 2022 reached a historic high of $23.8 billion, or 16% of estimated GDP.

If international programmes for Ukraine's recovery are launched starting in the second half of 2023, then one can expect some contradictory effects. On the one hand, a significant increase in imports of goods and services to be used to meet consumer and project needs will result in the growing foreign trade deficit, which will put pressure on the exchange rate. It should be noted that while in 2022 the growth in imports was driven by the country's survival needs («compensation» for losses directly caused by the war), further growth in imports will be associated with the

[26] ...this practically coincides with the deficit of pre-coronavirus 2019 ($14.6 billion and $14.3 billion, respectively) and is significantly lower than the deficits in 2012 and 2013 ($21.8 billion and $22.1 billion, respectively), including due to excessive energy imports from the «brotherly» neighbour that came to Ukraine with war already in 2014.

[27] One of the reasons for this decision is the use of agricultural practices in Ukraine that are not permitted in the EU (in particular, in terms of chemical and biological plant protection and compliance with environmental standards).

start of recovery and the launch of Marshall Plan projects.

On the other hand, the inflow of (investment) capital as part of the Marshall Plan projects will intensify, financing part of Ukraine's trade deficit. At the same time, significant resources to help Ukraine will continue to come from partner countries, and this will fully cover the emerging deficit and help strengthen the hryvnia.

Debt positions. Rather high macroeconomic risks in early 2022 were associated with Ukraine's external debt positions. However, these risks were localised, including thanks to assistance from partner countries.

Ukraine has managed not only to sustain its debt burden but also to reduce both its total external debt and the NBU's debt dependence on the IMF (Table *«External Debt of Ukraine»*). The reduction in debt obligations was due to timely payments in the face of limited access to new loans on the capital markets.

One more feature of Ukraine's foreign debt policy deserves special attention, namely the successful restructuring of payments, including easing of the terms of payments[28] on some debts. Although the «saved» amounts were relatively small, the government demonstrated a competent approach to debt problems. This is confirmed by the fact that in April 2023, the government agreed with its creditors to defer debt payments until August 2024. Moreover, the largest official creditors – the United States, Canada, France, Germany, Japan, and the United Kingdom – agreed to defer payments (principal and interest) on external debt until the end of the new IMF programme in 2027.

Since the beginning of 2023, Ukraine's calendar of payments on external obligations seems to be quite favourable (Figure «Scheduled External Debt Payments...»). The financial support of Ukraine by leading countries and IFIs will obviously continue in 2023, as agreed. In this context, it is important to know which shares of the resources provided will be grants- and loans-based, respectfully. That is, external debt risks will be fully controlled at least by the end of 2023,[29] and will not have a significant impact on the country's macroeconomic balance sheet.

SCHEDULED EXTERNAL DEBT PAYMENTS TO NON-RESIDENTS IN 2023 AS OF 1 JANUARY 2023,
$ million

	Q1	Q2	Q3	Q4
Public administration sector	799	787	988	889
National Bank of Ukraine	610	292	599	262

EXTERNAL DEBT OF UKRAINE
At the end of the period. $ billion

	2020	2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Total (gross external debt)	**125.7**	**129.7**	**128.0**	**126.8**	**121.6**	**132.0**
Public administration sector	47.8	52.3	52.9	55.4	55.0	65.3
National Bank of Ukraine	6.9	5.8	5.2	4.7	3.9	3.8
Direct investments: intercompany debt	17.5	22.1	20.6	20.6	20.2	20.6
Short-term debt by remaining maturity	48.5	48.3	45.9	42.8	39.0	39.1

[28] In Q1 2023, Ukraine has signed a Memorandum of Understanding on the official debt service suspension with a group of official creditors of Ukraine from G7 countries and the Paris Club aimed at mitigating (suspending payments of principal and interest on bilateral debts from 1 August 2022 to the end of 2023) the economic consequences (increasing expenditure on social, healthcare, or economic support) of Russian aggression.

The total debt stock covered by this Memorandum is about $3.1 billion. This decision seems positive in the short term, as it has a stabilising effect, in particular, by reducing the risk of hryvnia devaluation.

[29] Markuts Y. From Invasion to Recovery: Evaluating the Macroeconomic Implications of Russia's War in Ukraine and the Way Forward. – SCEEUS, *https://www.ui.se/globalassets/ui.se-eng/publications/sceeus/from-invasion-to-recovery.pdf.*

And finally, in 2023, there are no reasons to expect confiscated assets to be used for recovery or reserve replenishment projects, as this mechanism will hardly be operational in 2023 — or ever.

BRIEF INTERIM COMCLUSIONS

The exceptional feature, which now determines not only the nature of Ukraine's present, but shapes its future prospects, is the availability of long-term support from international partners that ensure macroeconomic stability and security. The government's task for the post-war recovery is to create an environment favourable to the development of domestic entrepreneurship in an open economic space and capable of withstanding competitive pressures in domestic and foreign markets.

The war has significantly weakened administrative and fiscal control over businesses, and it is thanks to this weakening that some companies have been able to continue their operations. Ukraine's recovery can be accelerated through further strengthening of free economic choice and international coordination and cooperation, including institutional one. Despite the devastating war, Ukraine still has a chance to speed up its integration into the European economic area and find worthy niches in the global division of labour by further opening up its domestic market to investment, which should be accompanied by further institutional strengthening of the foreign economic sector.

Moreover, further saturation of the real sector with money thanks to the inflow of resources from partners will create a reliable basis for the renewed economy. This is the economic acceleration scenario already by the end of 2023, and the achievement of balanced economic growth will provide a powerful impetus to effective transformations.

The socio-psychological climate in society is one of the factors shaping public consciousness and the system of values, influencing the assessment of socio-political processes, defining social and economic expectations, and determining socio-economic behaviour. Before the large-scale war in Ukraine, the public was mostly critical about the course of the country's development, but Russia's military aggression consolidated Ukrainian society by the need to fight an external enemy. This consolidation and the clear definition of social goals contributed to the growth of social optimism and faith in the future.

Let us emphasise once again that Ukraine has sufficient potential to improve its socio-economic dynamics. And today, there are reasons to expect successful peaceful restoration of the country, including thanks to its partners. And rational institutional changes will allow this potential to be fully realised.