

Rāpopoto - Summary

- Almost eight months of Russian war against Ukraine has had a detrimental impact on Ukraine's economy. Ukraine's real GDP could fall by 35-40 percent by the end of 2022. The opening of the grain corridor and international financial support provide a glimmer of hope for the improvement of the situation. The international community's financial support remains crucial for the country's economy and its citizens' welfare.
- As the war continues, the economic situation in Ukraine remains volatile and unstable. An estimated 40 percent of people have lost their jobs, and inflation sits at 24.6 percent. These economic hardships are exacerbating an already challenging humanitarian situation, made worse by Russia's increasing attacks on critical infrastructure across the country. By late October, at least 30% of Ukraine's electricity infrastructure has been severely affected, and the Kyiv region is facing rolling black outs to manage supply.
- Winter is coming, and access to warm accommodation is critical – temperatures will drop below zero by the end of this month. The number in need of humanitarian assistance is growing, with new World Food Programme estimates at over 18 million people as at mid-October 2022.
- Increasingly, the nexus between humanitarian need and reconstruction will need to be considered. Ukraine considers repairing basic critical infrastructure (like hospitals and civilian energy infrastructure) an urgent humanitarian issue, rather than something that can be delayed till the "rebuild" begins. New Zealand technology may offer solutions to support the sustainable rebuild of Ukraine, including drawing on our experience from the Christchurch rebuild.

Pūrongo - Report

State of Ukraine's economy

Ukraine's GDP shows the scale of the impact the war is having on the economy. In August, Minister of Economy Yulia Svyrydenko said Ukraine's real GDP could fall by 35-40 percent by the end of 2022. According to the State Statistics Service, Ukraine's real GDP in the second quarter of 2022 decreased by 19.1 percent (in comparison to Q1).

Inflation is also high – in September 2022 it was at 24.6 percent and, according to the Ukrainian National Bank's estimates, will accelerate to about 30% at the end of this year. According to the State Statistics Service, food prices in Ukraine have increased by an average of 31 percent year on year, with the largest price hikes recorded for fruits and vegetables. (By comparison, inflation in neighbouring Poland reached 17.2% for the year to September 2022, with food inflation at 19.3% and energy up 44% for the same period). The United Nations Office for the Coordination of Humanitarian Affairs (OCHA) estimates that some 9.3 million people will be in need of food and livelihood assistance from March–December 2022. The cost of petrol has doubled since January to USD1.34 a litre. According to World Bank regional country director for Eastern Europe Arup Banerji, 25% of Ukrainians are projected to be living in poverty by the end of the year and the number could rise to as high as 55% by the end of 2023.

The war has impacted Ukraine's exports. Monthly exports fell from USD6 billion in January 2022 to USD2.7 billion in March 2022. The impact of the grain deal and other land export routes has seen them grow to USD3.36 billion in August 2022. According to First Deputy Minister of Agrarian Policy and Food Taras Vysotskyi, Russia's occupation of Ukrainian territories means that Ukraine fell short of up to 10 million tonnes of potential crops in 2022.

Labour market

The Ukrainian labour market has been affected by military activities, Russian occupation of the territories, internally displaced people (IDPs) and war refugees' displacement. In September, the human resources website grc.ua assessed that some 40% of Ukrainians had lost their jobs since the start of the Russian full-scale invasion in February. According to the study, only one in five Ukrainians (22.7 percent) was working and receiving a full salary. The same number (22.5 percent) of Ukrainians continued working, receiving a reduced salary. Of the 40 percent who were without a job, 19 percent had lost their jobs due to the termination of the company's activities, 10.9 percent said their positions had been reduced, and 11.3 percent had lost their jobs due to having to relocate.

Taking into account the gravity of the situation, Ukraine's government launched a set of programmes to tackle this issue. For instance, the government project "eRobota" provides grants to Ukrainians for starting a business, developing entrepreneurship and training. It is aimed at intensifying entrepreneurial activity and stimulating job creation. The Cabinet of Ministers has also launched the state programme "Start in IT" for Ukrainians who want to move to the IT sphere. This is a scholarship programme of up to USD812 for training and obtaining the skills of a junior developer, data analyst or graphic designer. The funds can only be spent to pay for the school or courses determined by the Ministry of Digital Transformation. Additionally, the government introduced a programme aimed at helping businesses to relocate. Ukrainian Economy Deputy Minister Tetiana Berezhna said that a total of 745 businesses have been relocated in Ukraine since this was launched, and 558 of them have already resumed operations.

Ukrainian business is showing resilience. A study by the European Business Association (EBA) and Raiffeisen Bank with analytical support from Gradus Research showed that most member companies of the EBA expect a positive financial result next year. 58% of respondents expect income growth in the local currency, the Ukrainian Hryvnia (UAH), and 43% in real terms. At the same time, 31% expect an increase in UAH income up to 10%. Also, 31% of directors predict a fall in UAH revenues and 36% – in real terms. Meanwhile, there is some optimism in neighbouring Poland about the expected boost that rebuild will bring to the economy, with many firms already looking to position themselves for contracts.

Government finances

Government finances are stretched and are largely dependent on international assistance for the time being. In January-August 2022, Ukraine's state budget was executed with a deficit of UAH416.9 billion. According to the IMF, the fiscal deficit is estimated to rise significantly this year, by about 3 percentage points of GDP (subject to a great degree of uncertainty). The IMF also projects a drop in tax revenues of about 4 percent of GDP compared to last year. To help meet this shortfall, any government expenditure is focusing on core business – military operations and core social support (pensions, benefits and other humanitarian support). Minister of Finance Serhiy Marchenko said that Ukraine has received USD19 billion in financial support, of which almost 50% is grant funds. It is hoping to attract nearly USD16 billion of additional financing by the end of the year.

Ukraine's government is planning how to manage its future finances. In 2023, the government plans to attract USD37.9 billion to finance the state budget deficit and USD13.6 billion to restore the country. Financial support from partners such as the IMF, US and EU is critical to support liquidity.

Impact on humanitarian situation

Economic hardships are exaggerating an already challenging humanitarian situation. The cost of and access to energy is a particular concern going into the winter, with heating being essential to ensure homes are habitable.

Damaged homes and infrastructure caused by Russian missile strikes (e.g. broken windows and power lines) mean that many homes will be uninhabitable once the winter cold starts, causing an increase in IDPs and refugees. Approximately 7 million are internally displaced within Ukraine and 17.7 million people are in need of assistance.

In addition to infrastructure, access to food remains a challenge. The World Food Programme has reported that it urgently requires USD677 million to sustain its operations for the next six months. Number of people in need of food and livelihood assistance in Ukraine may increase further as Ukraine's army retakes territory and parts of the east and south of the country become more accessible.

Refugees working while abroad and providing remittances have been an economic lifeline for many families. While economically useful for Ukraine, it also is positive for the mental health of those refugees, who feel value in providing support from afar. These workers are also critical for neighbouring Poland, where unemployment has reached 4.8% in August 2022 and the labour market is very tight. Ukrainian workers often play a similar role to Pacific RSE workers in New Zealand, and reduced access to such labour has caused major problems for Poland's large horticulture sector this harvest, for example.

Overlap between humanitarian support and the "rebuild"

Ukraine has an immediate need to help ensure damaged civilian infrastructure is working and restored before winter, particularly heating and water. This is a significant challenge in recently reclaimed territories, where infrastructure and homes had been damaged during Russian occupation and their reclamation by Ukraine. For example, on 6 October, Mykolaiv was completely without water due to a serious accident affecting the water supply system. For the previous week in the apartments of Mykolaiv residents, the water was available only a few hours a day due to lengthy repairs after the Russian missile attacks on the city water supply system in late September.

Russian targeting of civilian infrastructure is a growing concern, such as this month's attacks on critical infrastructure across the country, and September's strike on a Kharkiv power plant during the Russian withdrawal from the area. The attack left many parts of eastern Ukraine, including Kharkiv, without electricity – an action which is manageable in September, but potentially deadly in the height of winter. According to Ukrainian President Volodymyr Zelenskyy, as of 18 October, 30% of Ukraine's power stations had been destroyed since 10 October, causing massive blackouts across the country.

Reconstruction

Rebuild plans are moving slowly forward, but the costs still remain significant. At a meeting with the heads of major businesses within the framework of the New York Stock Exchange opening President of Ukraine Volodymyr Zelenskyy said the cost of the complete recovery of Ukraine after victory in the war could be estimated at more than USD1 trillion. Polish State Bank Pekao estimates that reconstruction will cost US\$750 billion, with USD70 billion alone for demining Ukrainian territory.

Ukraine's plans for the "Ukraine Restoration Fund" have recently been released by Kyrylo Tymoshenko, Deputy Head of the Office of the President. A new law is being established covering the Fund, and will deal with both fundraising and reconstruction projects. Donor countries will control the recovery fund, and will make up 75 percent of the Supervisory Board of the Fund, with the other 25 percent being Ukraine's representatives. The Board will provide governance oversight as well as choosing projects, oversee purchases and selection of contractors. Thought is going into how those supporting the rebuild can best coordinate, and more structure is expected to emerge in the coming months.

Businesses in Poland are already looking ahead to how they can support the rebuild. A conference earlier this year, organised by the Polish Investment and Trade Agency, saw hundreds of Polish firms signal their interest in participating in reconstruction projects, as well as support the provision of humanitarian aid in the interim. In opening the event, Poland's Minister of Development and Technology Waldemar Buda said "In business, trust is

very important, if not the most important element. We have built a huge amount of trust between the people of Poland and Ukraine, which will affect our economic relations. We have an important goal to achieve, and that is the reconstruction of Ukraine. This is the Nr. 1 economic goal for the whole of Europe, if not the world, in the near future. Poland can be a hub for transporting funds and supporting the reconstruction of Ukraine.”

More reports

View full list of market reports from MFAT at www.mfat.govt.nz/market-reports

If you would like to request a topic for reporting please email exports@mfat.net

To get email alerts when new reports are published, go to our [subscription page](#).

To learn more about exporting to this market, New Zealand Trade & Enterprise’s comprehensive [market guides](#) cover export regulations, business culture, market-entry strategies and more.

To contact the Export Helpdesk

Email exports@mfat.net

Call 0800 824 605

Visit Tradebarriers.govt.nz

Disclaimer

This information released in this report aligns with the provisions of the Official Information Act 1982. The opinions and analysis expressed in this report are the author’s own and do not necessarily reflect the views or official policy position of the New Zealand Government. The Ministry of Foreign Affairs and Trade and the New Zealand Government take no responsibility for the accuracy of this report.

