

# Ukrainian Economy: What are the chances for catch- up?

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Deputy Governor

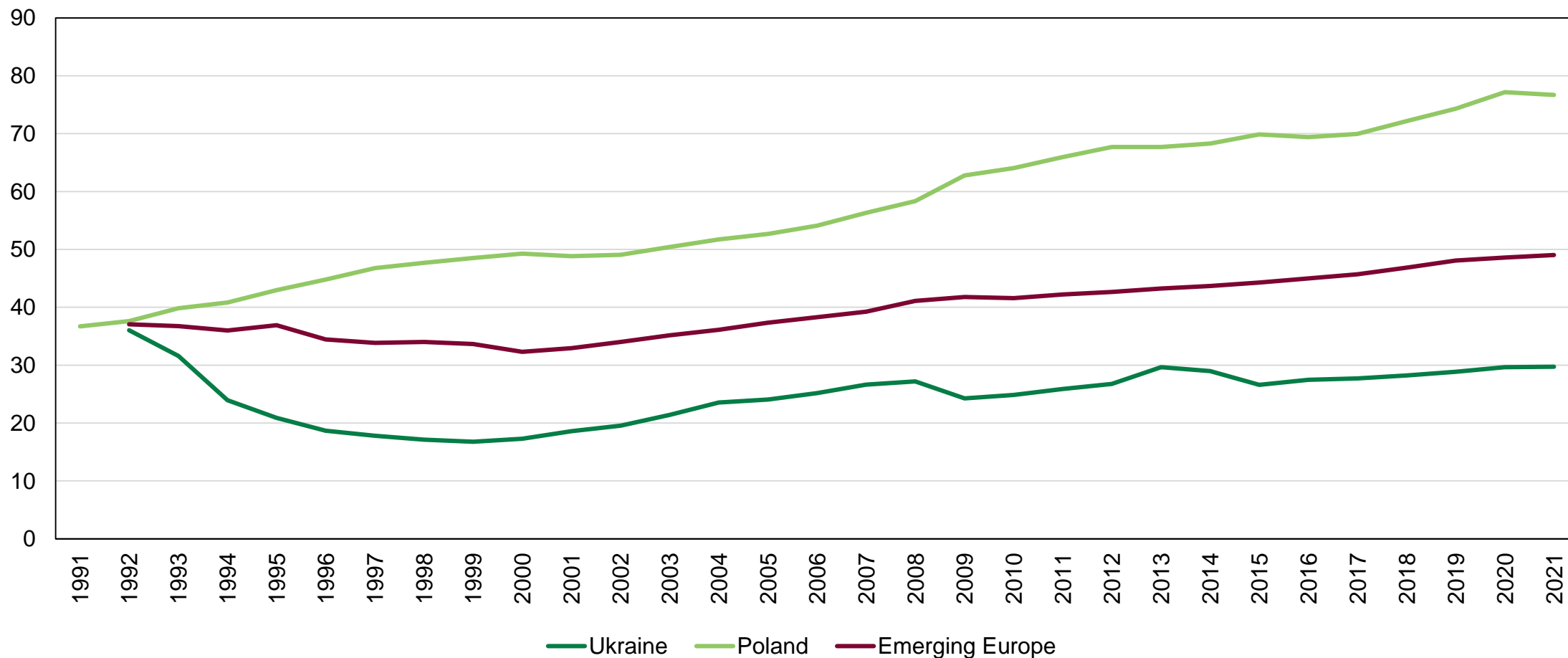
London, Embassy of Ukraine to the UK

23 September 2021



## Catch-up with the EU is very slow...

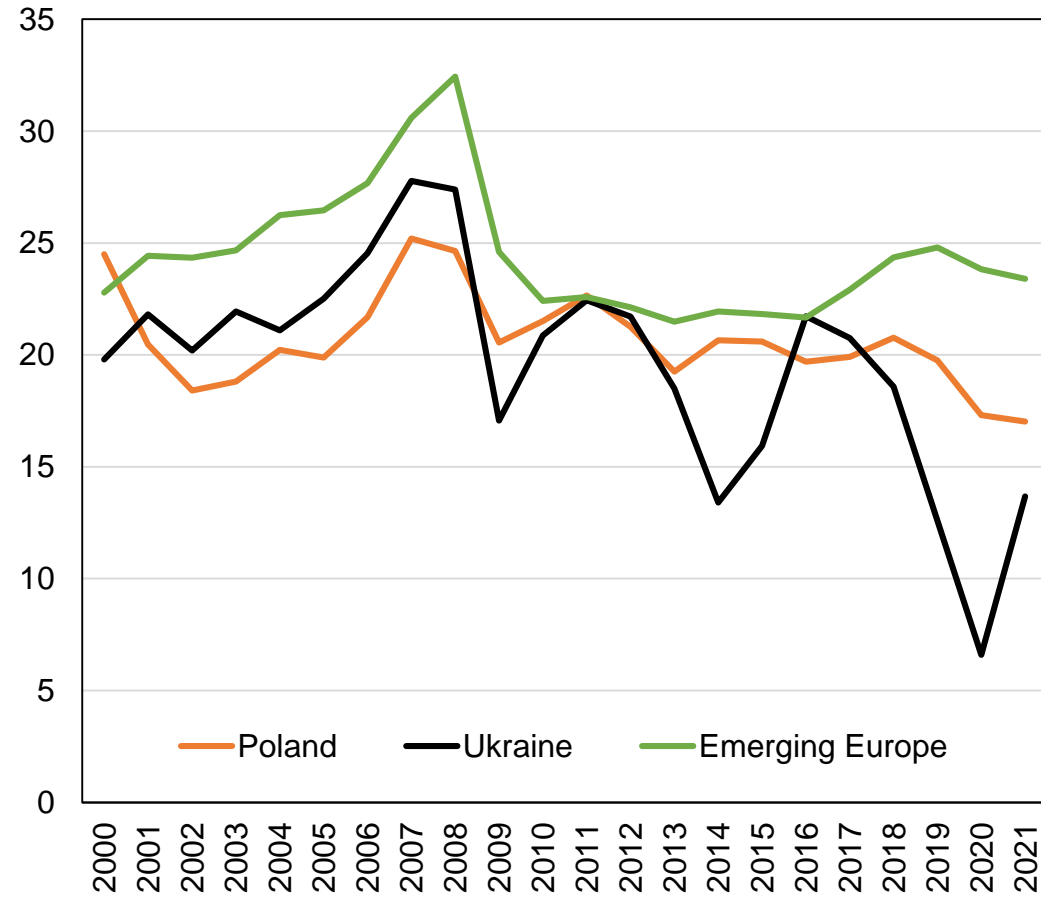
GDP, PPP per capita (relative to the EU), %



Source: WEO (April 2021), own calculations.

## ... due to weak investment activity

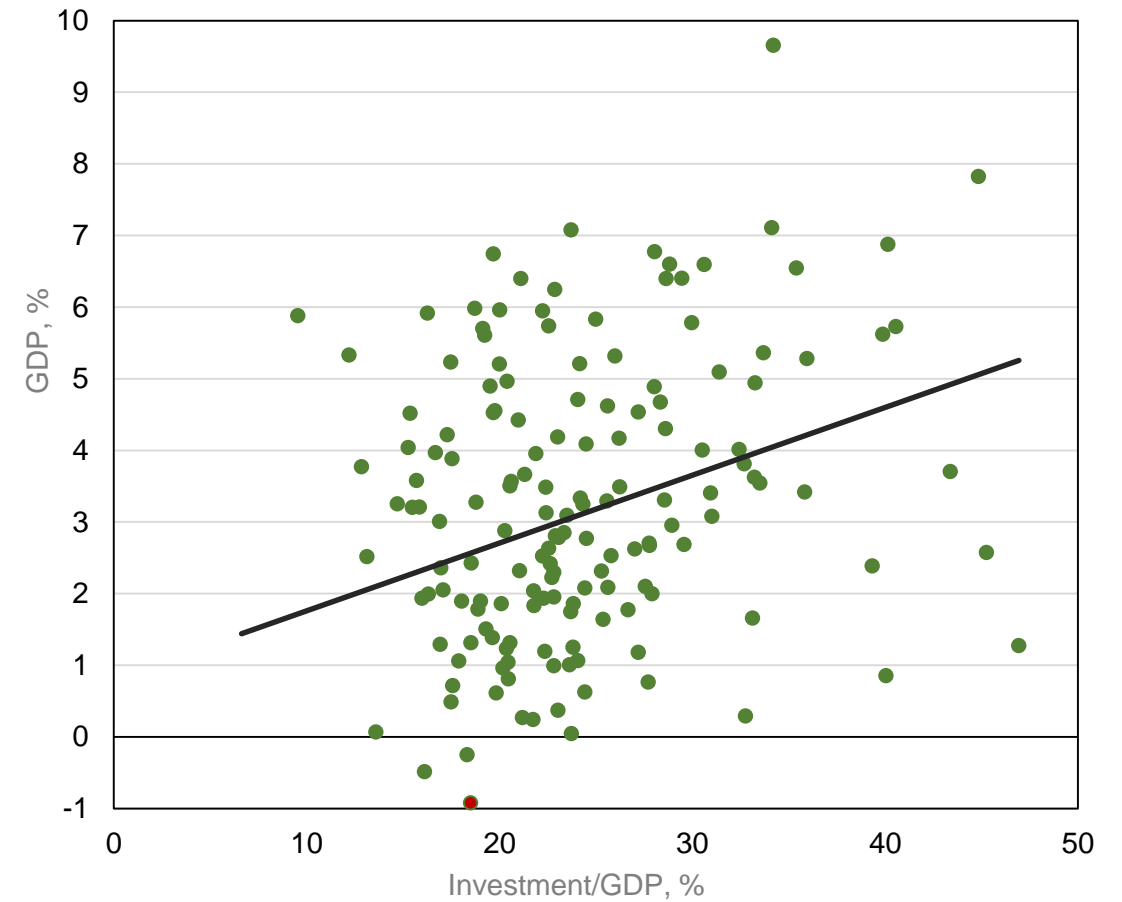
Investment\*/GDP, %



\* gross fixed capital formation

Source: WEO (April 2021), own calculations.

GDP and investment/GDP by countries, % (2009-2019 avg)\*

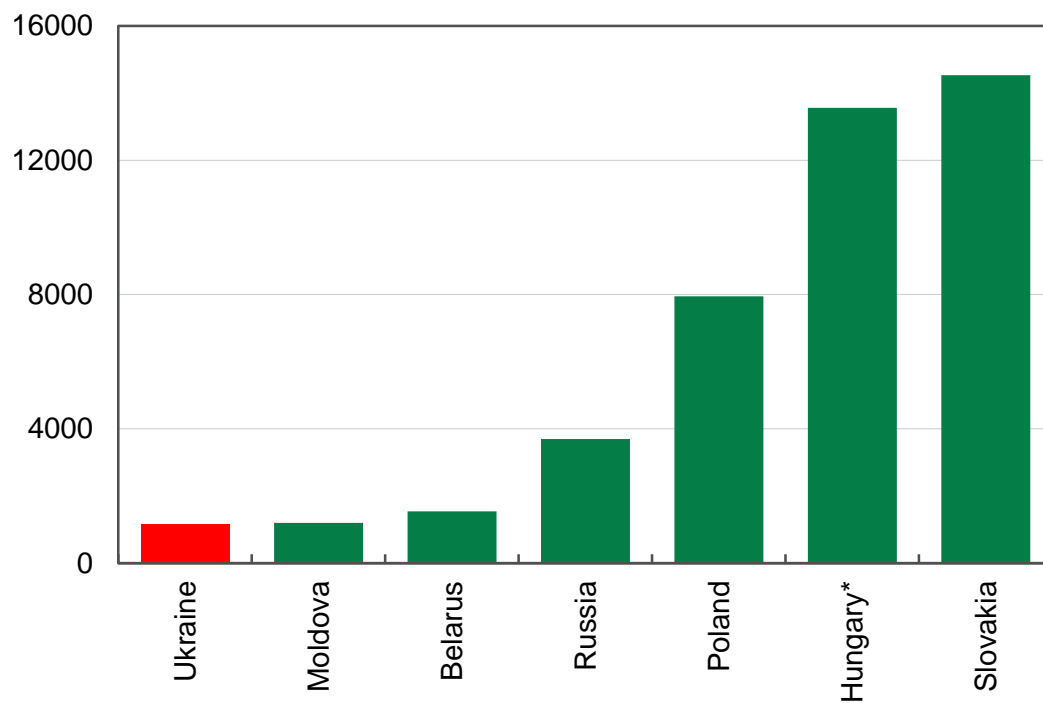


\* every dot – one country

Source: WEO (April 2021), own calculations.

## ... on the back of significant capital deficit

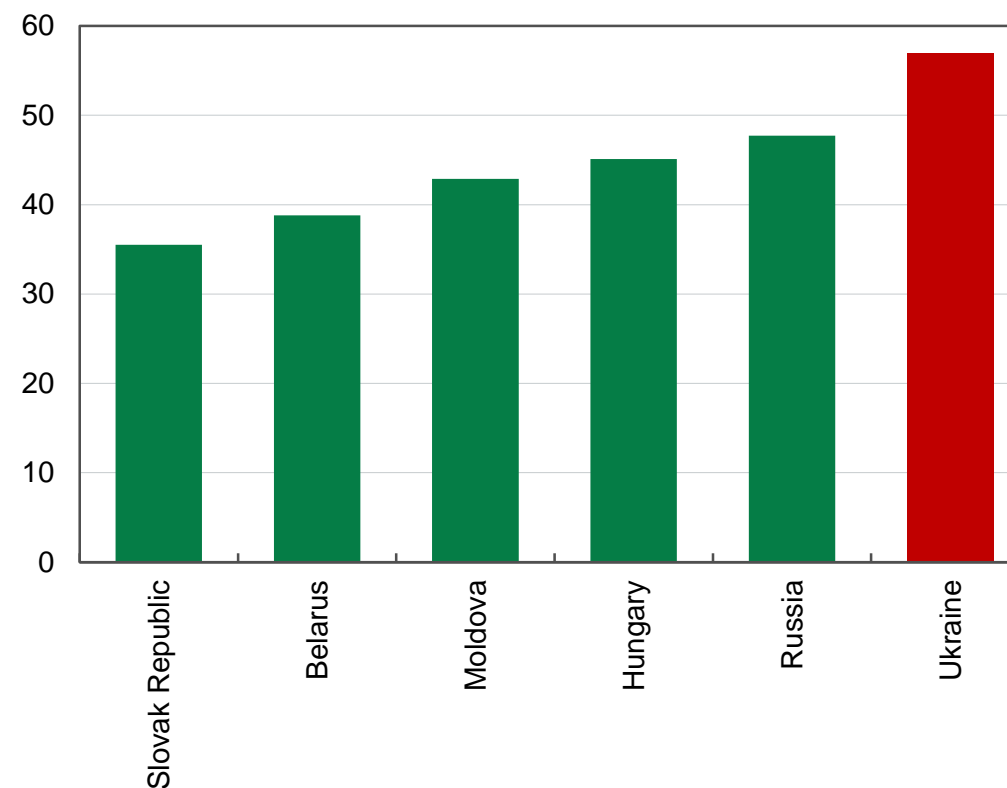
FDI stock per capita, as of the 2020 year end, USD



\* Data as of 2019 year end.

Source: NBU, statistical offices of selected countries, IMF, UNCTAD.

Depreciation of fixed assets, % \*

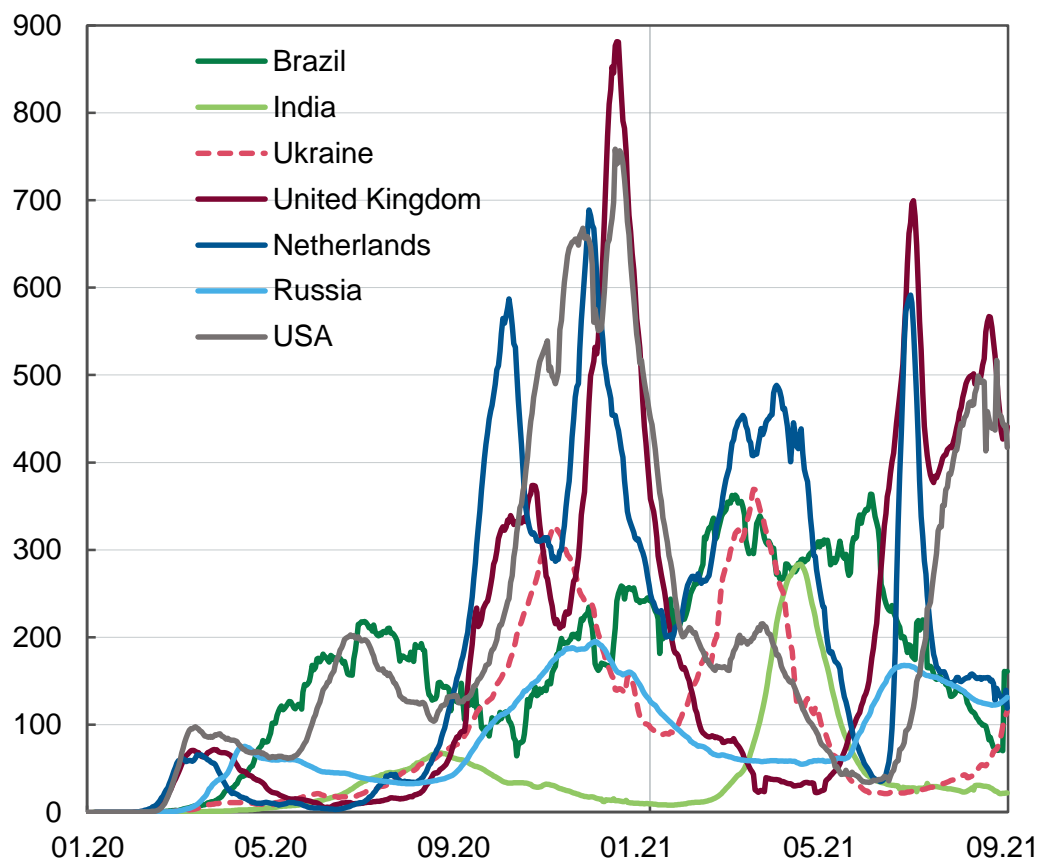


\* Ukraine – 2019, other countries 2011-2012.

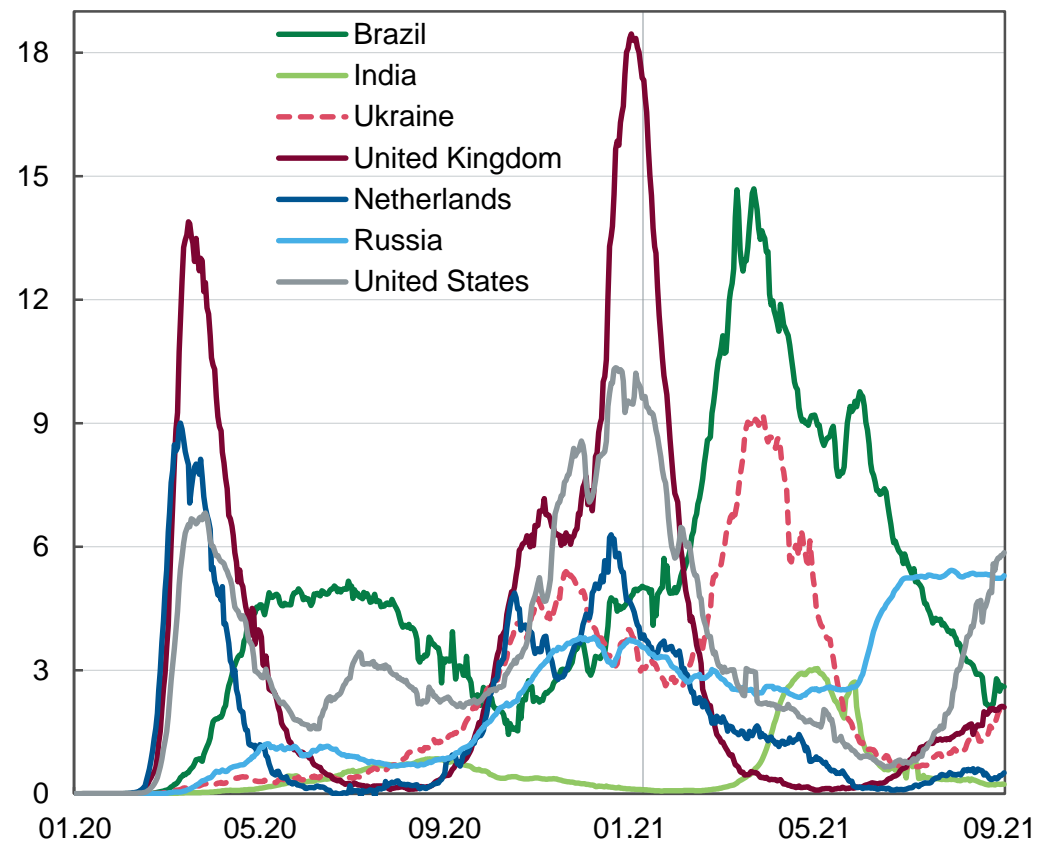
Source: national statistical agencies, Eurostat, UNCTAD.

# The impact of the pandemic had been moderate relative to other countries

New cases per million (smoothed)



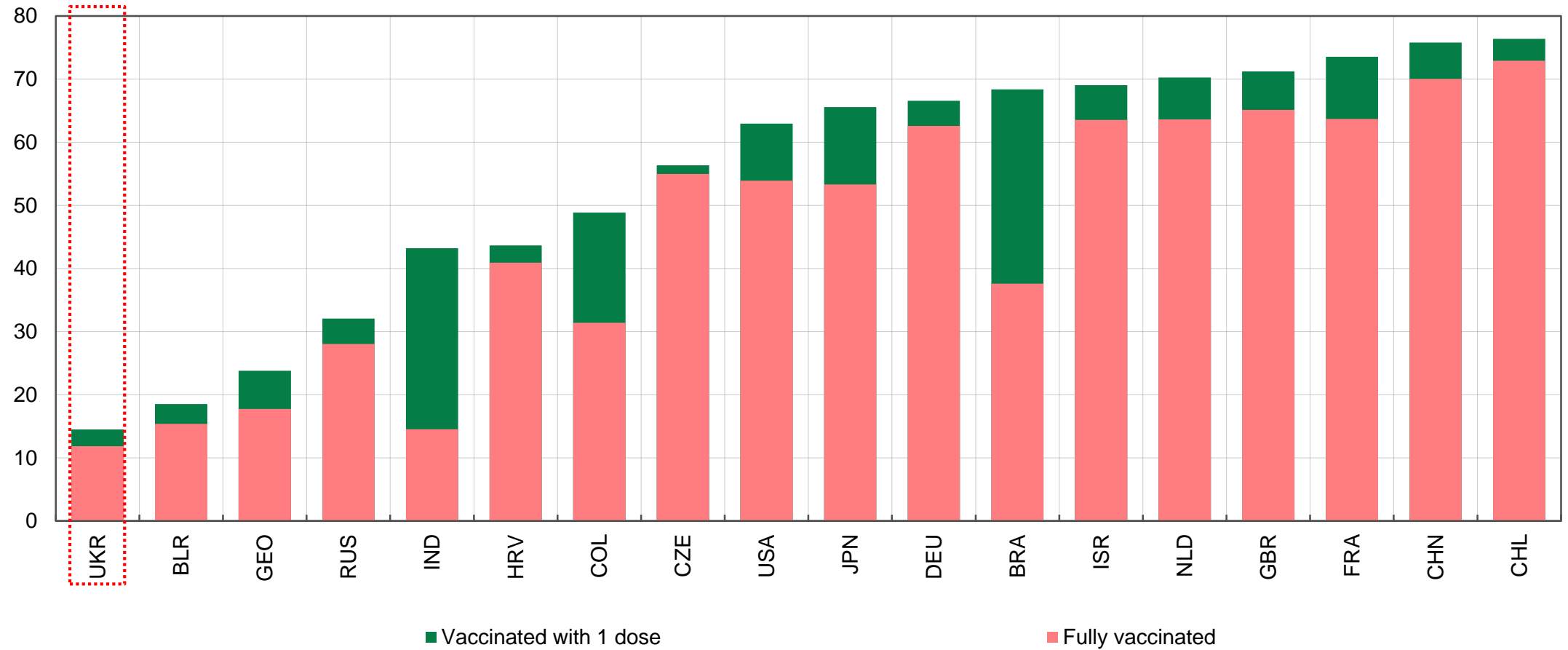
New deaths per million (smoothed)



Source: Our world in data, as of 20.09.2021.

## ...however, the risks remain due to slower vaccination

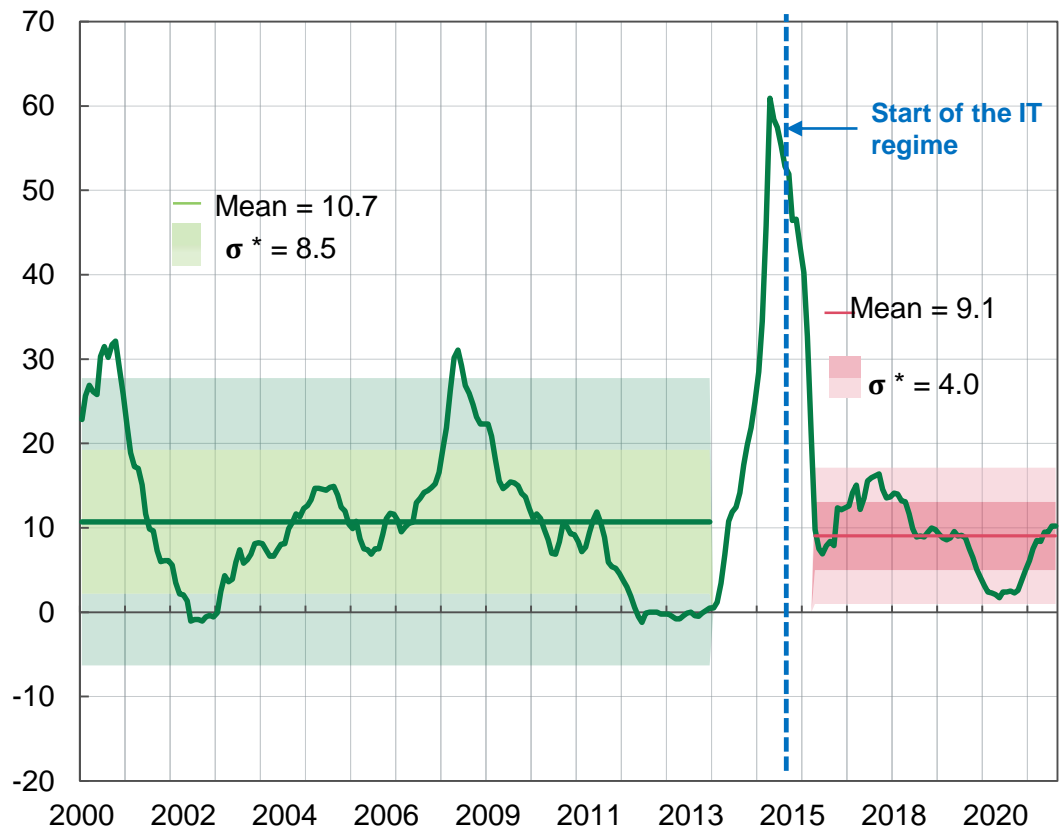
People vaccinated per hundred



Source: Our world in data, as of 20.09.2021.

# First outcomes of NBU's monetary policy under inflation targeting ...

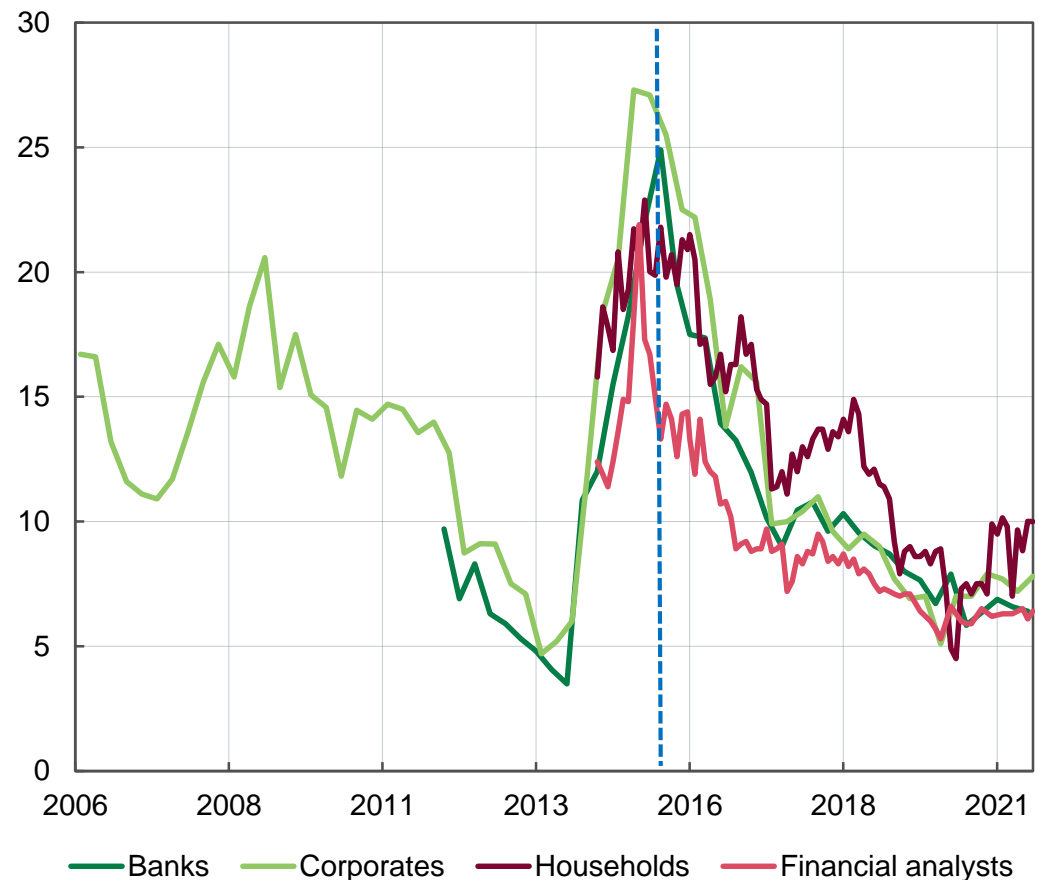
Inflation and its volatility, % yoy



\*  $\sigma$  - standard deviation. With a normal distribution, 68% and 95% of the values are within one (areas colored in dark shades) and two (areas painted in light shades), respectively, standard deviations from the mean value.

Source: SSSU, NBU staff estimates.

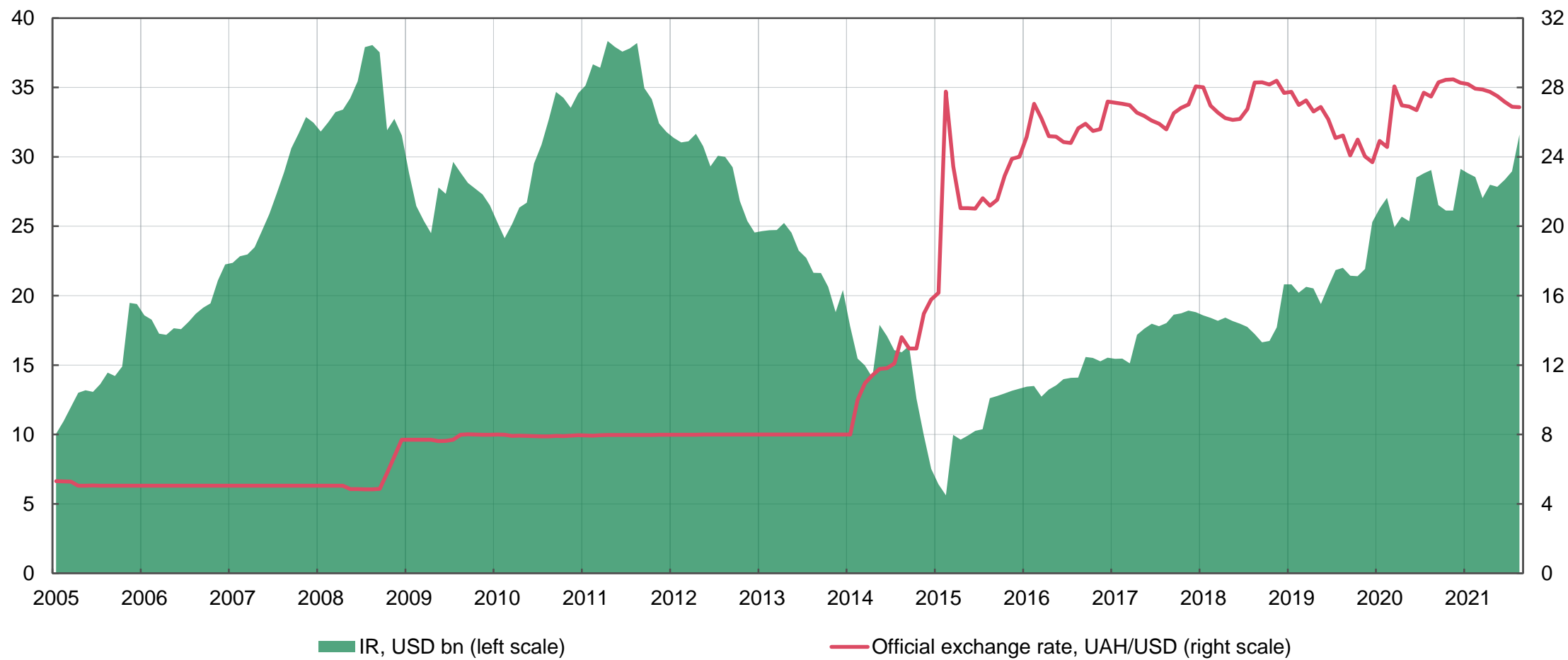
Inflation expectations for the next 12 months, %



Source: NBU, GfK Ukraine, Info Sapiens surveys.

## ... under floating exchange rate and accumulation of international reserves

International Reserves and hryvnia exchange rate per USD

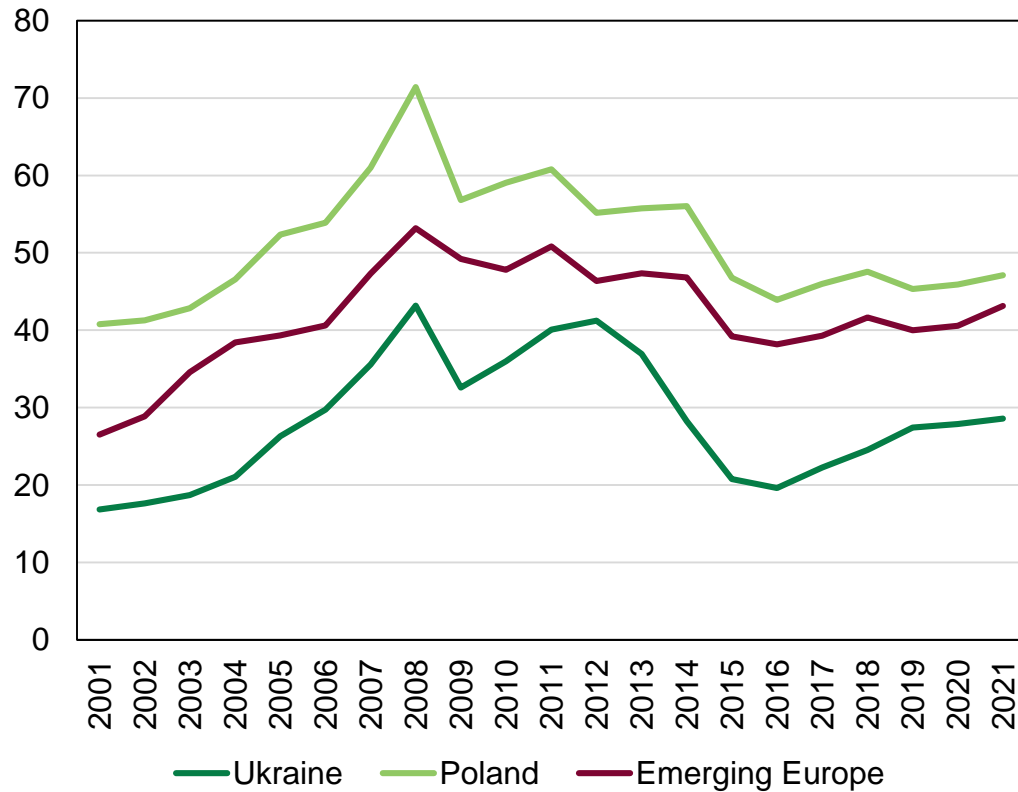


Source: NBU.



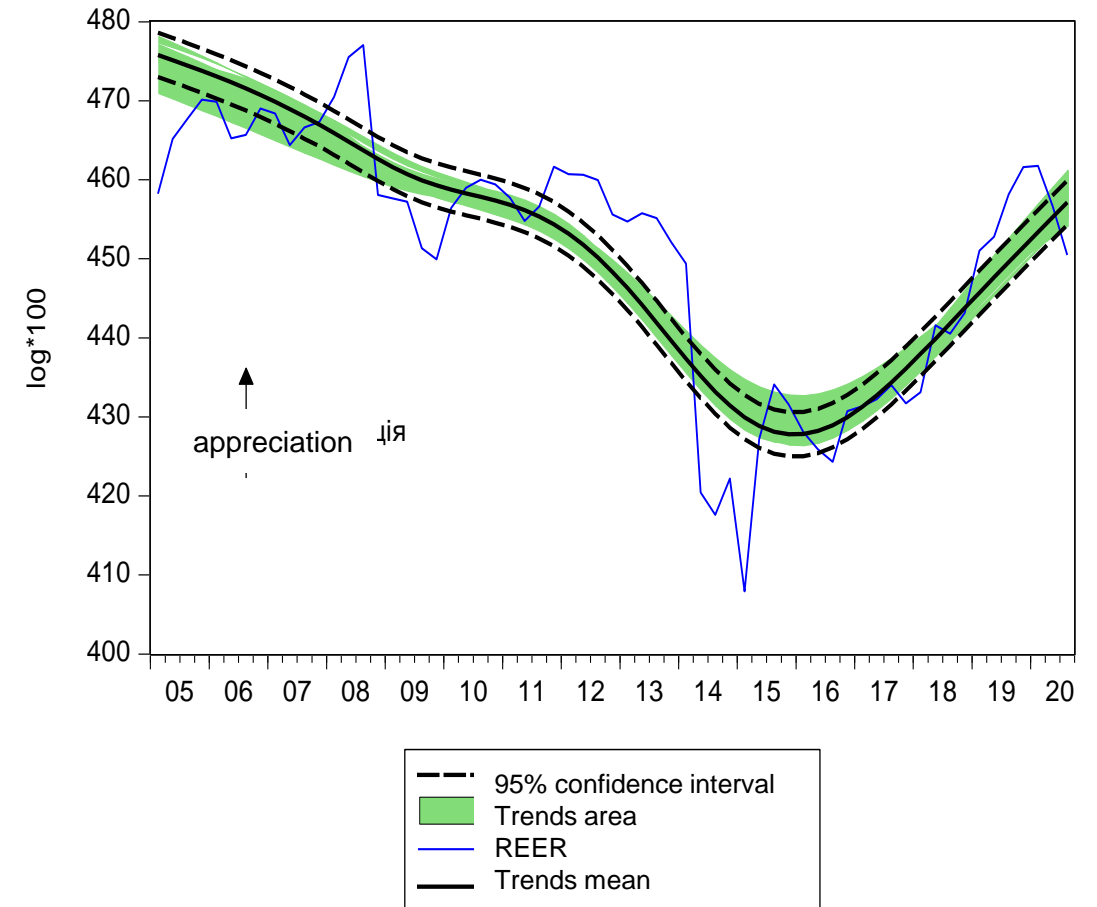
# Exchange rate competitive advantages are still in place

Price level (PPP) relative to the US



Source: WEO (April 2021), own calculations.

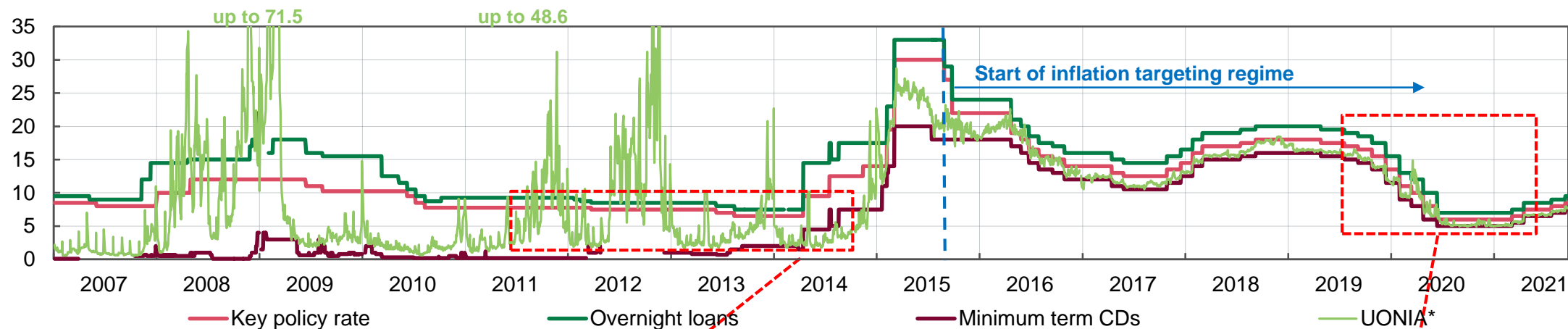
Equilibrium REER



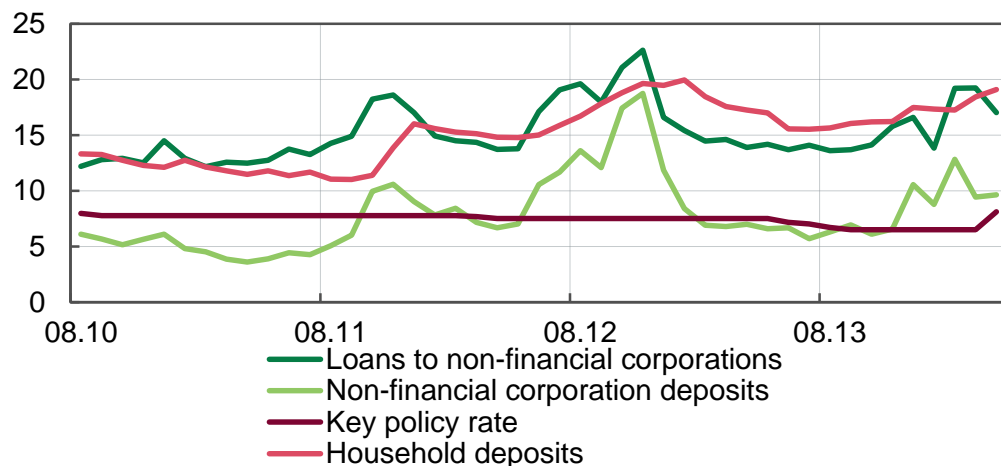
Source: Vdovychenko A. (2021). Empirical estimation of REER trend for Ukraine. IHEID Working Papers 06–2021, Economics Section, The Graduate Institute of International Studies

# Interest rates are lower and more stable

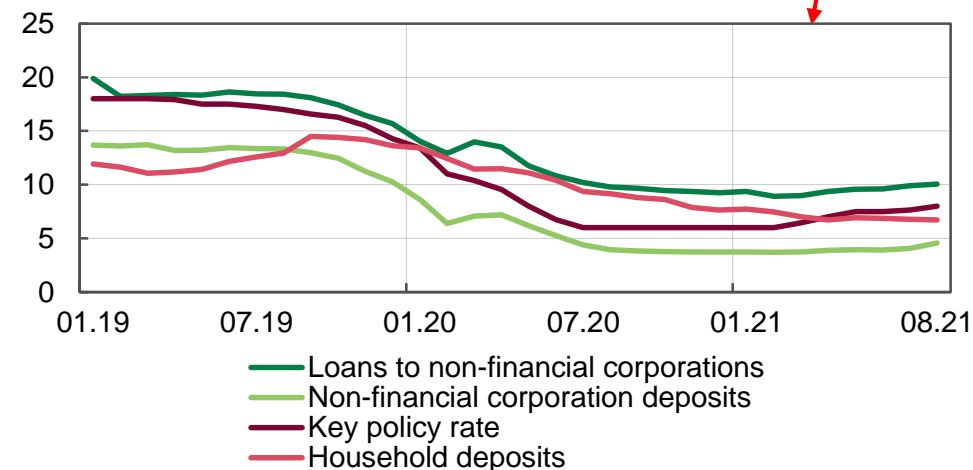
NBU policy rates and UIIR/UONIA (as of 20.09.2021), %



Monthly average key policy rate and weighted average interest rates on new hryvnia loans and deposits, %  
2010 – 2014



2019 – 2021

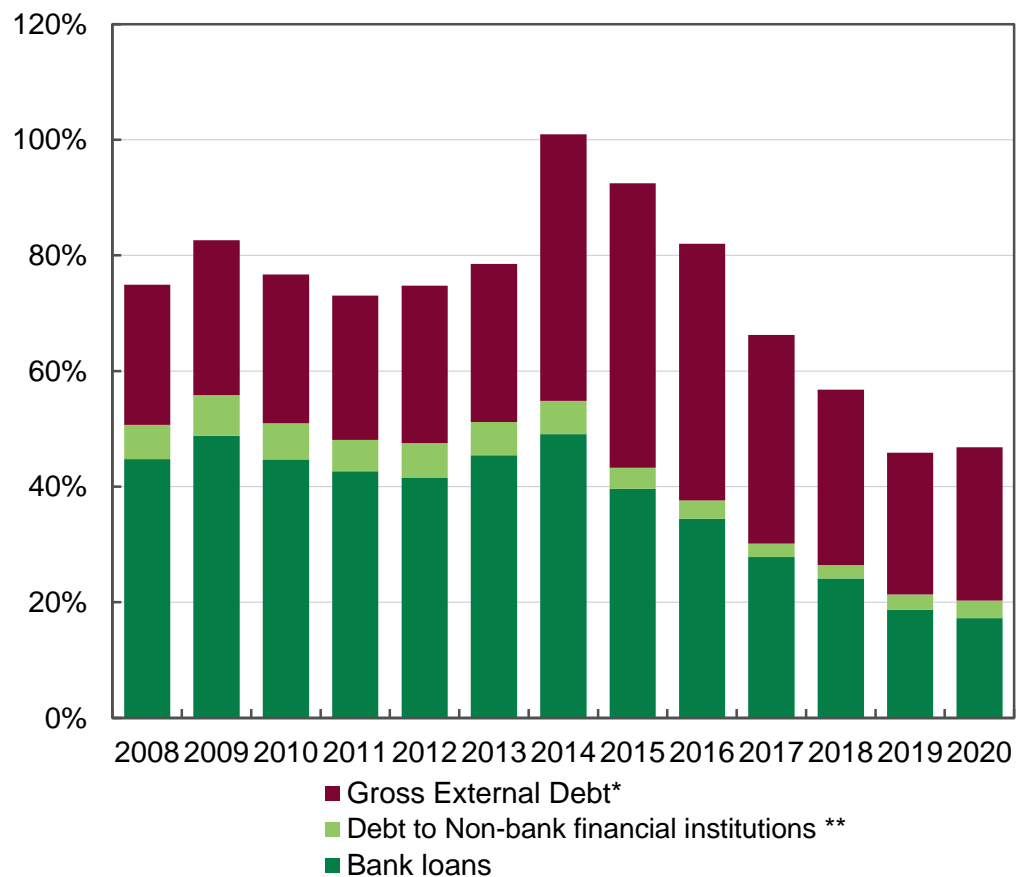


\* Until 25.12.2015, the source of data on interbank rates are rates on hryvnia interbank loans from CredInfo.

Source: NBU.

# Debt burden on corporates and households is low both historically ...

Key debt components of non-financial corporations,% of GDP

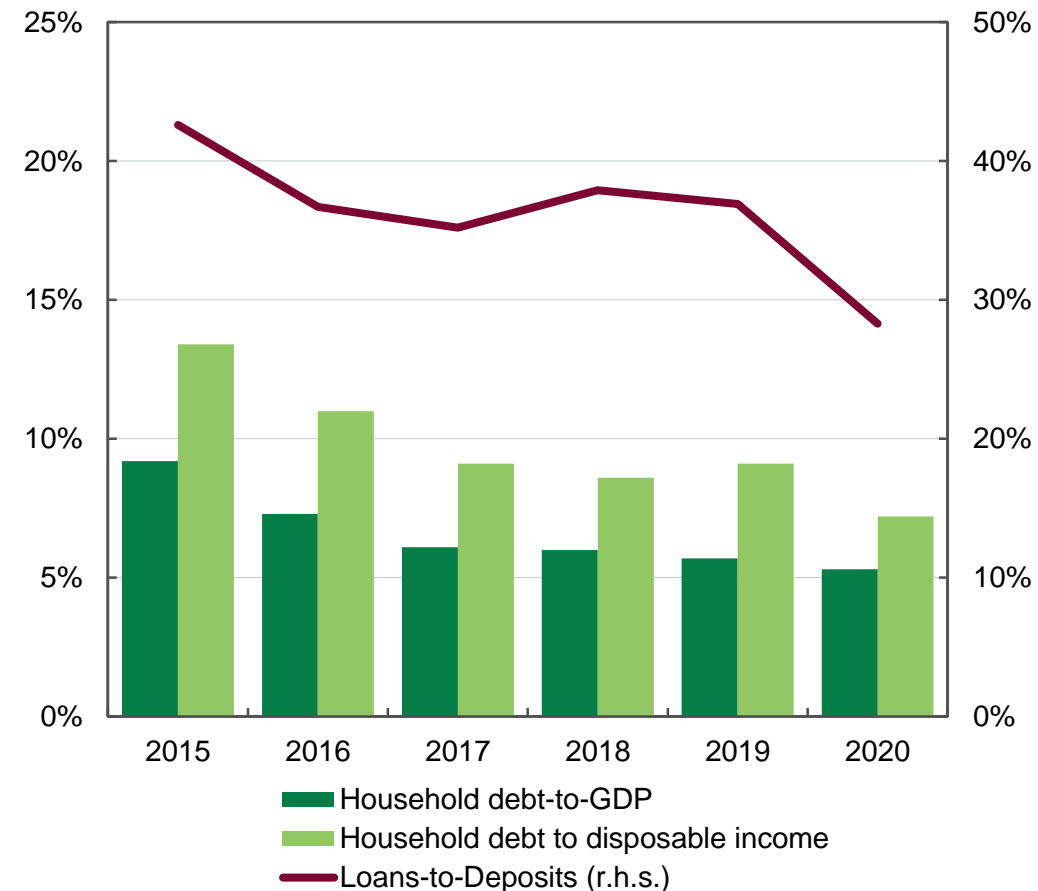


\* Debt securities and loans, excluding trade credit and advances.

\*\* Loans and debt securities.

Source: SSSU, NBU.

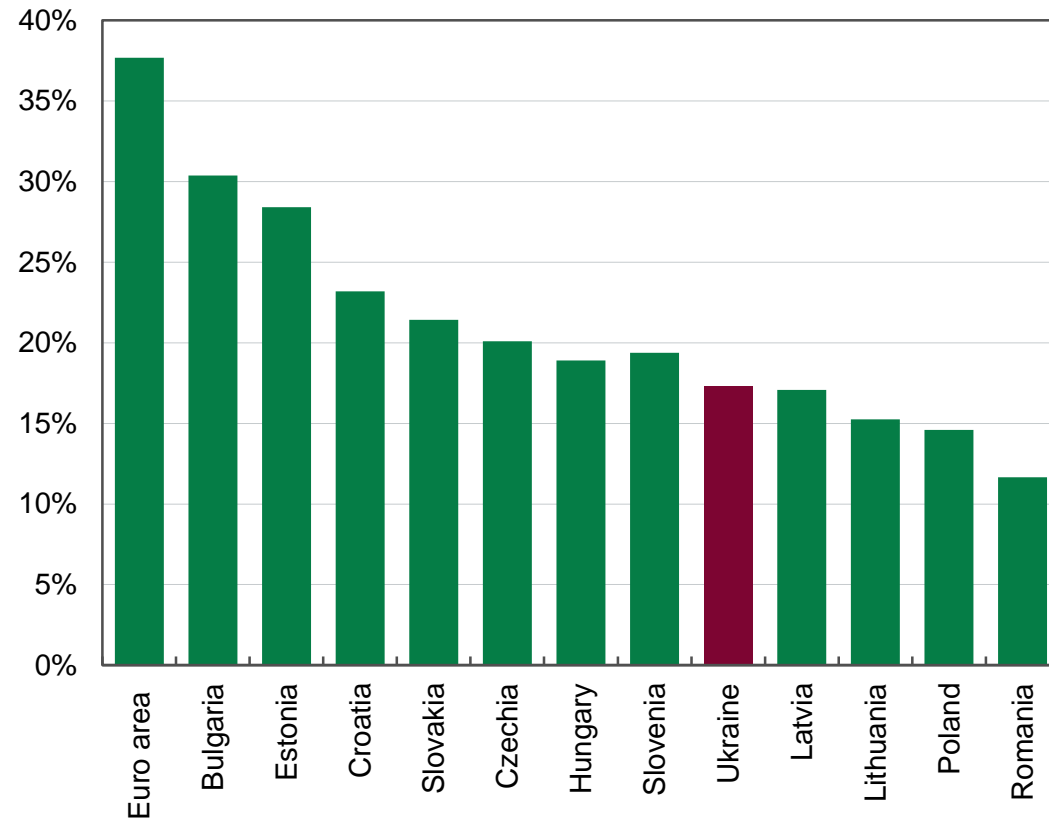
Households debt burden



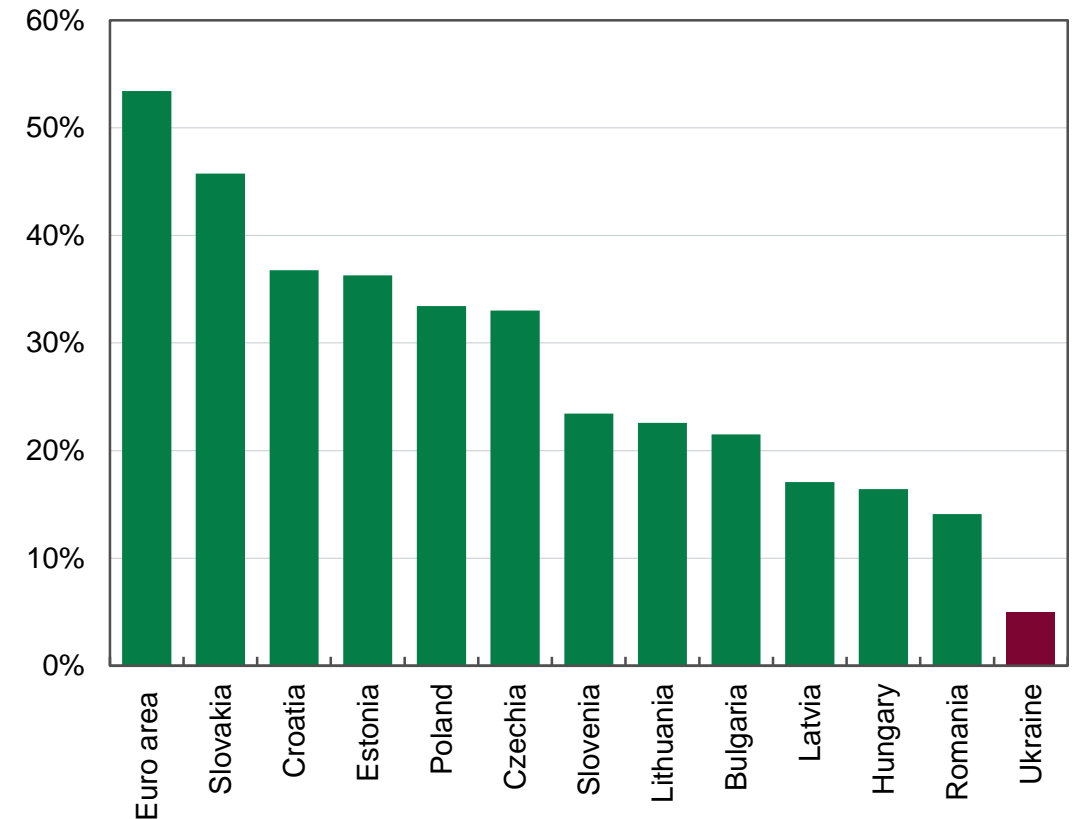
Source: SSSU, NBU estimates.

## ... and in comparison to peers ...

Bank loans to non-financial corporations in 2020,% of GDP



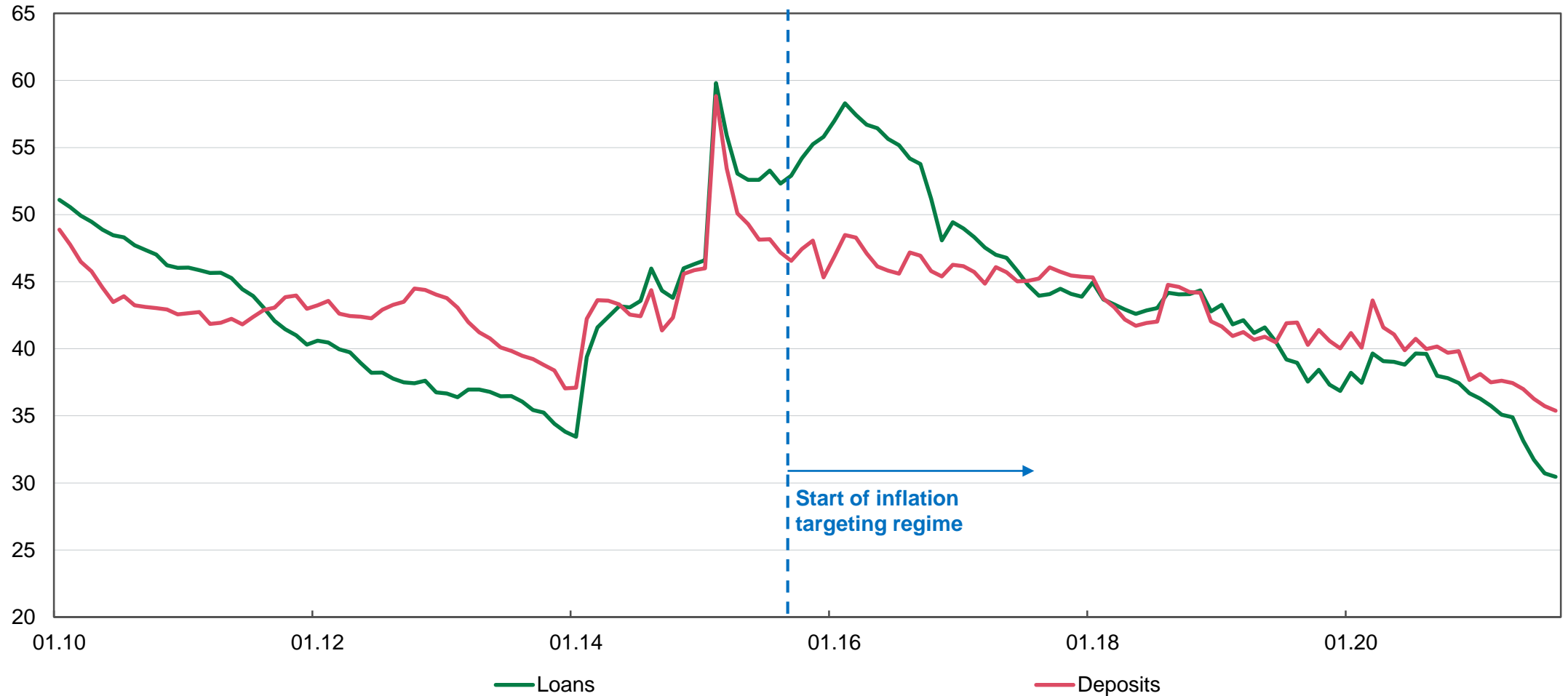
Bank loans to households in 2020,% of GDP



Source: ECB, Eurostat, NBU.

## ... while trend towards de-dollarization is steadily continues

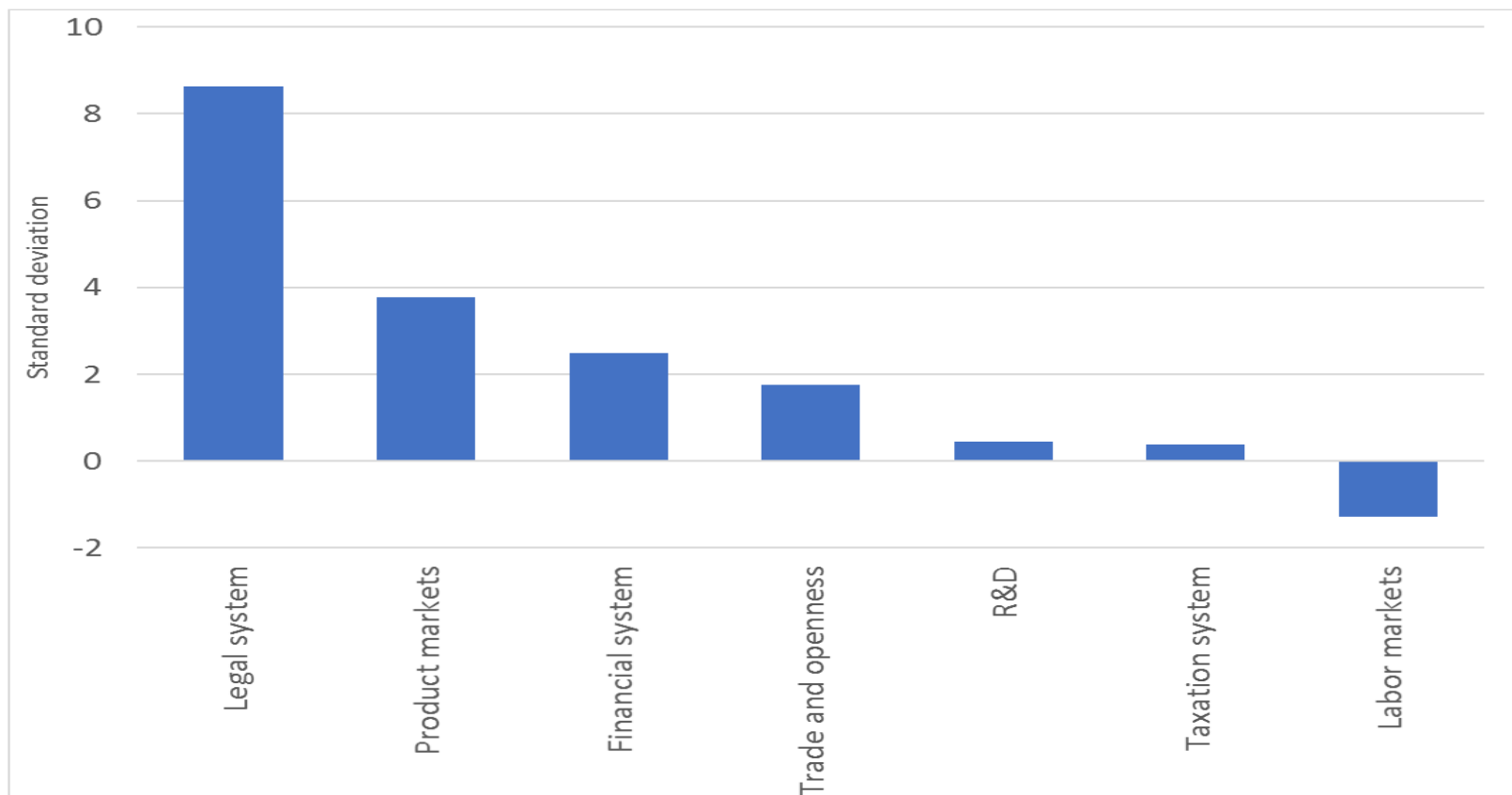
Share of loans and deposits in foreign currency, %



Source: NBU

# The legal system is a key "drag" on the economy

## Institutional Weaknesses and Reform Gaps vis-a-vis Poland



Bars indicate the size of gaps vis-à-vis Poland for any given composite indicator.  
The size of a gap is measured in terms of standard deviation specific to the given composite indicator

## Investment ranking of Ukraine

**S&P/Fitch**  
**B-/B-** **B/B**  
(2013) (2021)

**Global Competitiveness Index**  
**84** **85**  
(2013) (2019)

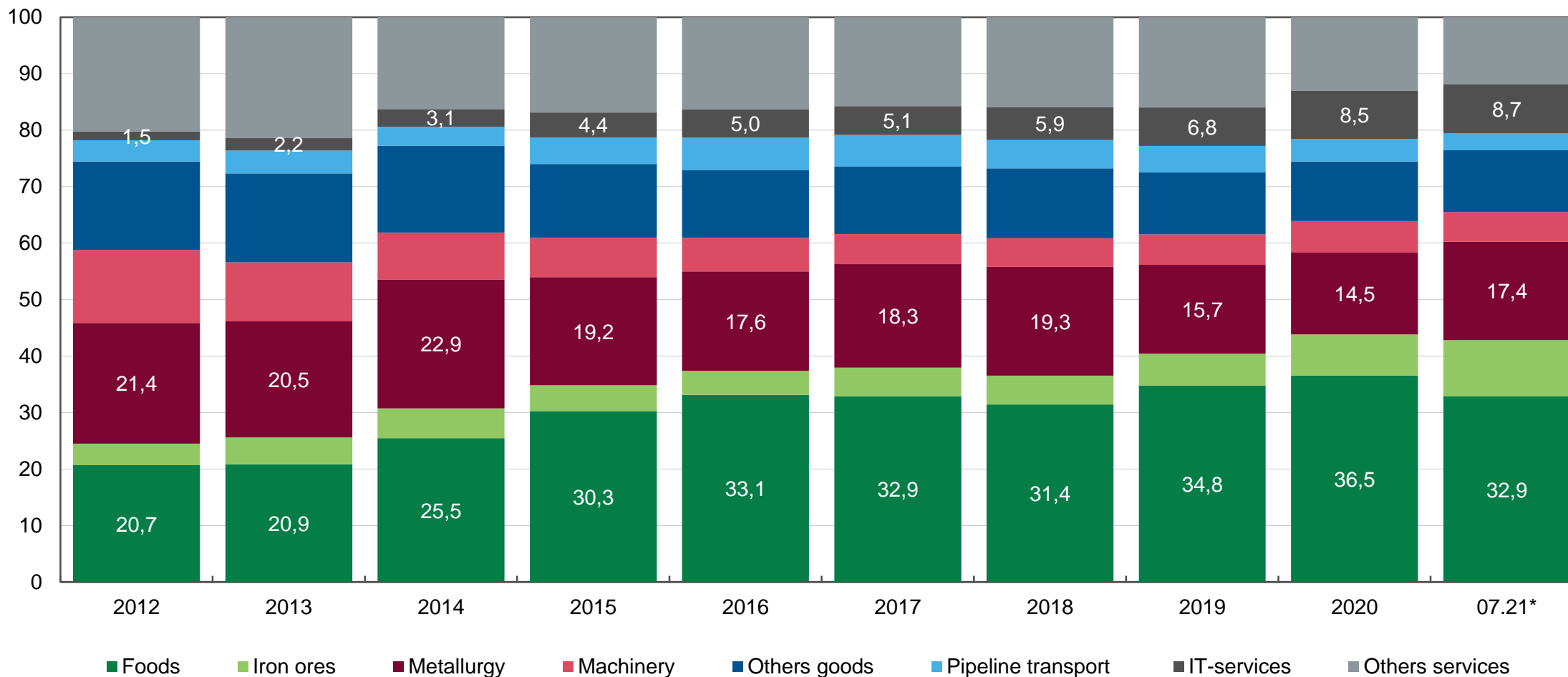
**Global Innovation Index**  
**71** **45**  
(2013) (2020)

**Transparency International**  
**144** **117**  
(2013) (2020)

Source: IMF working paper by Anil Ari and Gabor Pula (April 2021). Assessing the Macroeconomic Impact of Structural Reforms in Ukraine

# The structure of the economy is gradually improving ...

Structure of export (goods and services), %

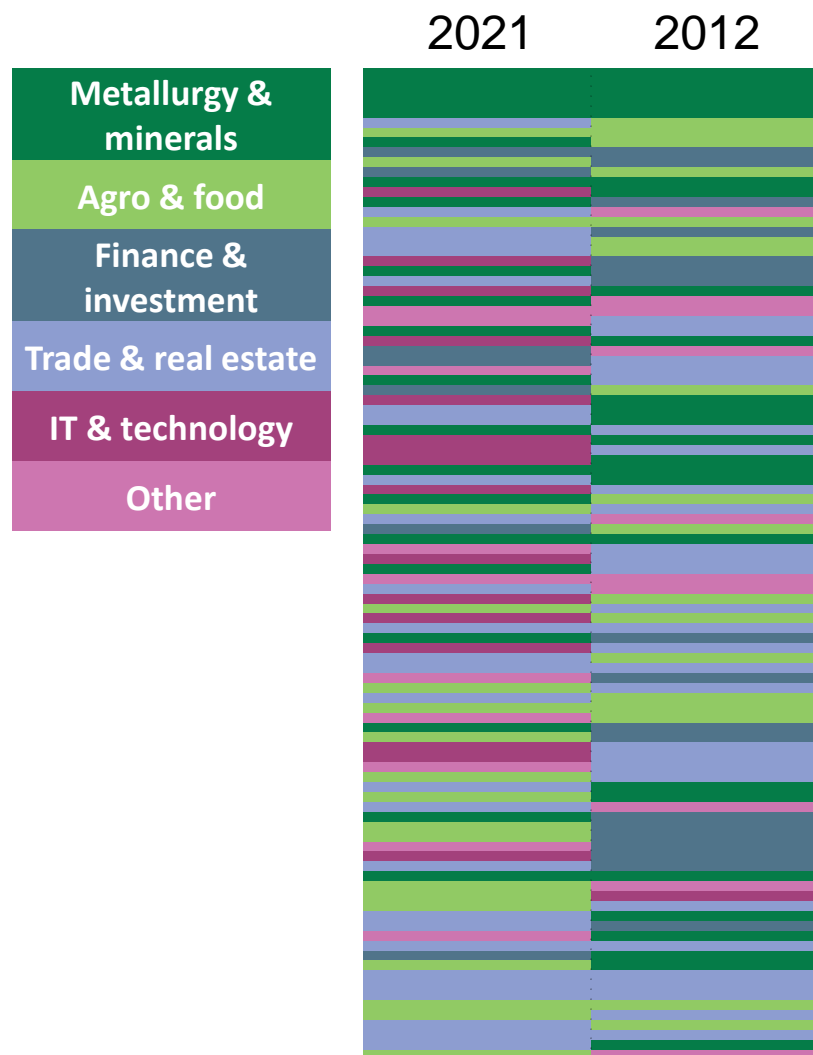


\* 12 month rolling basis

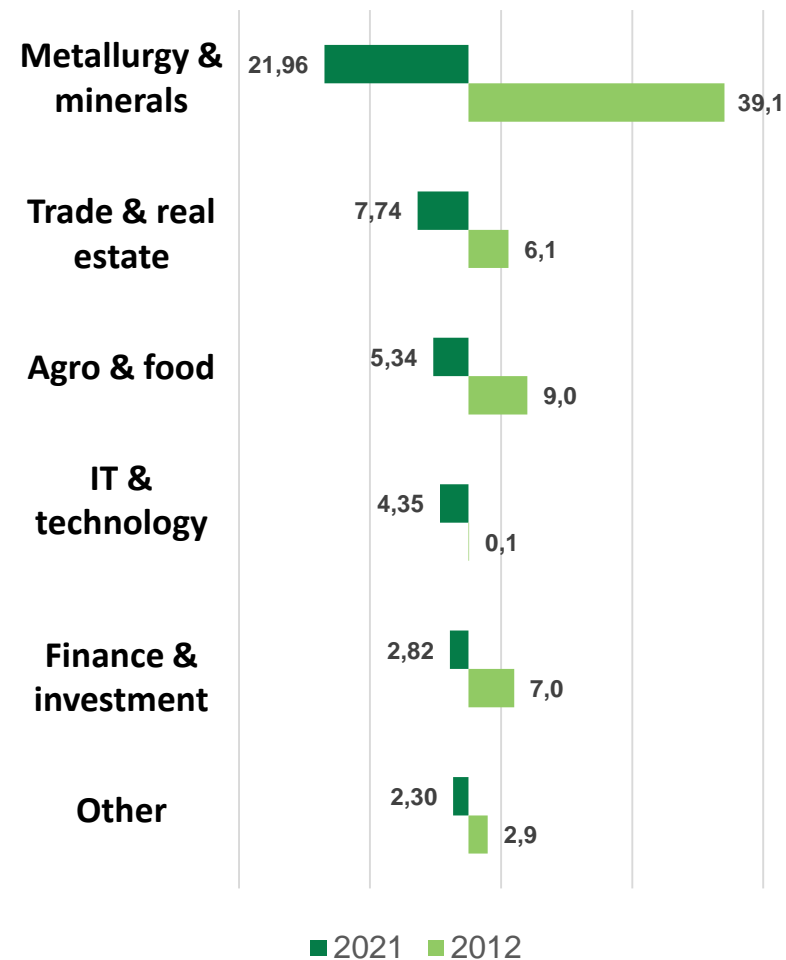
Source: NBU

# ... as well as the industry structure of millionaires (according to the Forbes list)

Heat map by categories



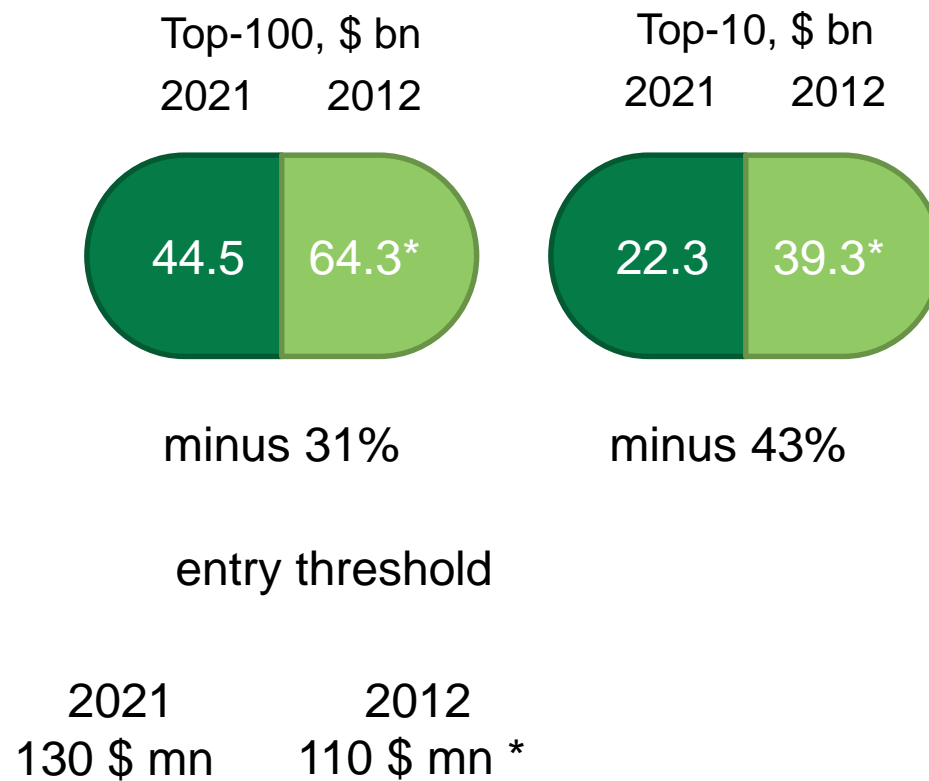
Capital in \$bn\* by categories



\* - in 2021 dollars (adjusted for inflation)



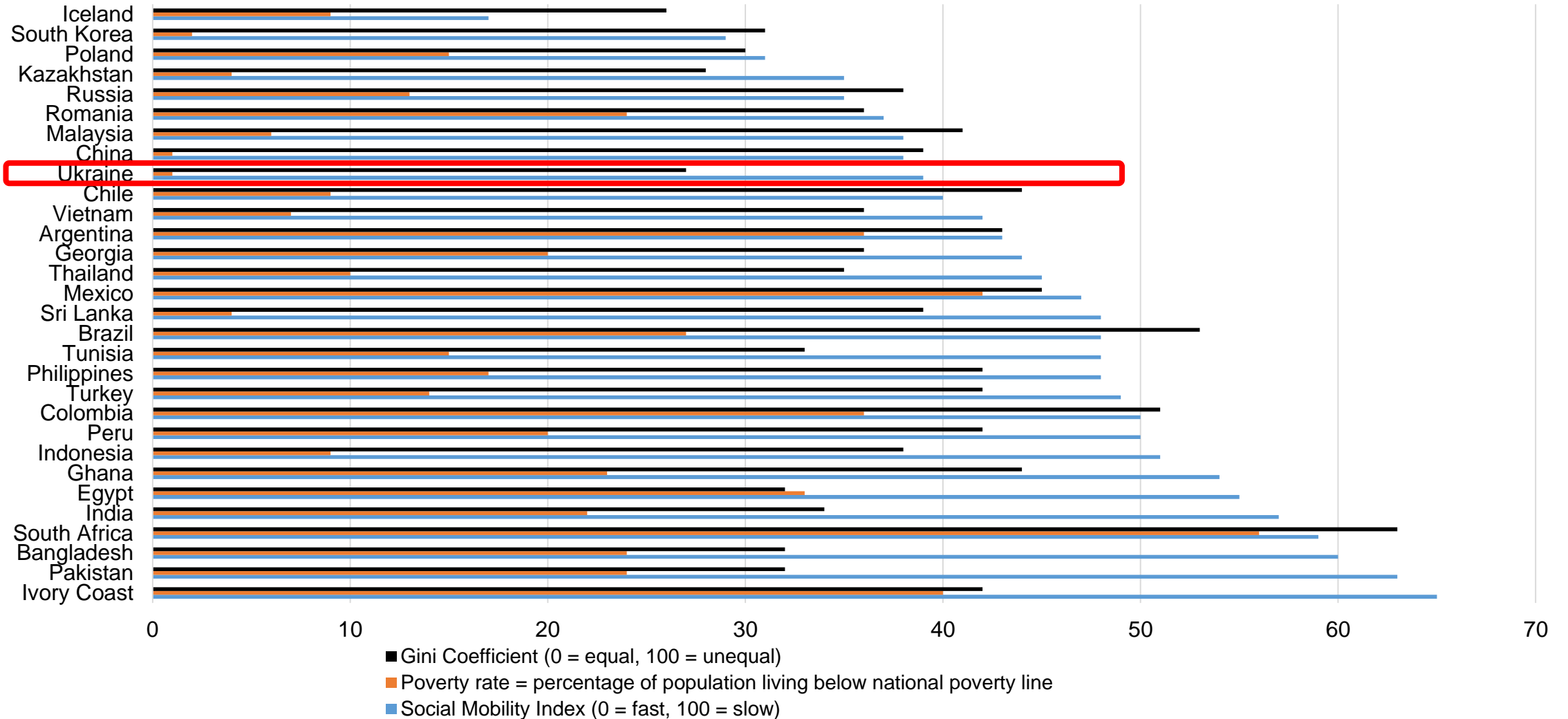
## Inequality among millionaires is declining



\* - in 2021 dollars (adjusted for inflation)

Source: Forbes, own calculations.

## ... and among households in general is relatively low



Source: World Bank, WEF (2020).

## Outlook and conclusions

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- Short-term outlook:
  - Pandemic risks are moderate, vaccination should be intensified
  - The vulnerability of the economy to external and internal shocks has been significantly reduced due to prudent macroeconomic policies and support from official partners
  
- Medium-term outlook:
  - Judicial reform, protection of property rights, and the rule of law are necessary conditions for potential growth acceleration
  - Pressure from civil society and support from western partners in the face of external threats are powerful catalysts
  - Resistance from stakeholders and the state apparatus will continue to gradually weaken
  - Global trends of digitalization, greening, food security, remote work play well for the Ukrainian economy
  
- Stay LONG UKRAINE



# National Bank of Ukraine

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