PRESS RELEASE

New forecast: Ukraine's GDP will drop by -7% due to pandemic

Berlin/Kyiv, 20.05.2020. Ukraine's economy will suffer hard due to the Covid-19 pandemic. That is the main result of a new economic forecast by the German Economic Team (GET), in cooperation with the Institute for Economic Research and Policy Consulting (IER), Kyiv. GDP will shrink by -7% in 2020 as external and domestic shocks hit the economy. Before the pandemic, 3% growth were expected. In a pessimistic scenario with extended domestic lockdown measures and harder external shocks, the economy will even shrink by -11.2%. Despite the hard shocks, the economic decline will still be less than during the financial crisis in 2009. The reason for this is that good macroeconomic policy in the past years has made the economy more resilient and has created space for monetary and fiscal policy support. Stable government spending provides support to the economy despite dropping tax revenues, as a new IMF deal is now imminent. A cut in the NBU policy rate and a flexible exchange rate provide further support.

Our forecast "Economic impact of the Covid-19 pandemic on Ukraine" highlights the drastic effect of the Covid-19 pandemic on Ukraine's economy.

Main results of the study:

- **Covid-19 pandemic leads to a massive drop in Ukraine's GDP in 2020:** A GDP contraction by -7% in 2020 is the result of our baseline scenario. That is ten percentage points below the forecast before the Covid-19 pandemic. At the beginning of the year, we expected GDP to grow by 3% in 2020. In a pessimistic scenario, the GDP decline increases to -11.2% in 2020. A combination of domestic and external shocks is the main reason for the sharp drop. Hard, but necessary domestic lockdown measures reduce activity in the retail, gastronomy and transport sectors. Exports and remittances drop as other countries are also sharply affected by the pandemic.
- **Investment drops sharply, government consumption stabilises economy:** Investment in the Ukrainian economy will drop sharply by -11.2% in 2020. Private consumption will decline less sharply by -5.7%. These are the typical reactions to the domestic and external shocks generated by the pandemic. Stable government consumption will support the economy. We expect government consumption to drop only by -0.7% compared to 2019.
- **Effect on sectors - Transport takes the largest hit:** Among the supply-side sectors, the transport sector will be affected most by the pandemic. A -14.3% decline of output is predicted in the transport sector in 2020 compared to 2019 due to closures of domestic and international passenger transport and reductions of goods trade quantities. Retail trade will also be affected strongly with -8% due to lockdown measures and dropping demand. Although steel exports will drop heavily, Ukraine's industrial sector as a whole will be relatively weakly affected with only -5% decline.
- **No danger to current account - imports decline more than exports:** Ukraine's imports will drop by -12.7% in 2020, while exports drop by -7.6%. This will keep the current account deficit stable at -0.3% of GDP in the baseline scenario. In the pessimistic scenario, the current account

would even be in surplus at 2.1% of GDP because of the sharper reaction of imports. Despite a drop in remittances, there is hence no danger to Ukraine's current account. An important contributing factor to this is the flexible exchange rate maintained by the NBU.

- **Pre-crisis macroeconomic stabilisation pays off:** Ukraine has worked hard to stabilise its macroeconomic situation in the past years. This now pays off. Because Ukraine's economy was in good shape, when the pandemic hit, the impact will be less severe than the 15% GDP contraction during the global financial crisis in 2009. Also, the government can use policy space to support the economy. A new IMF programme is now imminent after the banking and land reform laws were passed and permits stable government spending. A two percentage points cut in the NBU's policy rate helps domestic demand and is possible because inflation was brought under control in past years.

David Saha, Consultant in the German Economic Team and lead author of the analysis:

> *"Major uncertainties remain. The economic decline in 2020 could still get worse if containment measures cannot be relaxed as quickly as expected. The recovery in coming years will get slower, the longer the lockdowns last and companies go out of business".*

Vitaliy Kravchuk, Senior Research Fellow at IER Kyiv:

> "*Our baseline forecast of -7% GDP contraction in 2020 is at the pessimistic end of the spectrum of current forecasts for Ukraine, but broadly in tune with other forecasts by the government and international institutions."*

Link to Study: https://bit.ly/Get052020

German Economic Team: The German Economic Team (GET) advises the governments of Ukraine, Belarus, Moldova, Georgia and Uzbekistan regarding the design of economic policy reform processes and a sustainable development of the economic framework.

Institute for Economic Research and Policy Consulting (IER) is the leading Ukrainian analytical think tank focusing on economic research and policy advice. The IER was founded in October 1999 by top-ranking Ukrainian politicians and the German Advisory Group Ukraine, predecessor organisation of GET.

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