UKRAINE

Overview of the measures taken to support the Ukrainian economy during the war

Research

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PMC RC stands firmly with Ukraine, supports its sovereignty and territorial integrity, and condemns Russia's ongoing military aggression. We continue to maintain our long-standing commitment to support Ukraine's democratic and economic progress. This bulletin provides an overview of the measures taken by the Ukrainian government to support the economy and outline of bilateral financial aid received by Ukraine following Russia's unjustified invasion of Ukraine on 24th of February, 2022.

Since Russia's invasion of Ukraine on 24 February 2022, martial law[1] has been in effect across the whole territory of Ukraine[2]. Alongside restrictions on the movement of male Ukrainian citizens aged 18 to 60 from their places of residence, the imposition of curfews, and other laws needed to repel the armed aggression and ensure national security, the Ukrainian government has also adopted special laws and measures aimed at supporting business and economic activity in the country.

Table 1 below provides an overview of some of those legislative measures as well as financial support programs initiated by the Ukrainian government in an attempt to support the economy during the war. Recently, the Ukrainian authorities have presented Ukraine's National Recovery Plan[3] and while it is indeed important for the Government to have a plan for Ukraine's post-war reconstruction, it is also crucial to analyze what instruments the state is using now to survive the war economically and to safeguard business activity, primarily of SMEs.

The Ukrainian government's economic policy measures in response to the war can be grouped into three areas: Business support, Monetary regulations and Labor Support. It should be highlighted that to increase the effectiveness of implementation of the measures in all three areas, the state has been actively using available digital technologies. Many of Ukraine's digital government initiatives, and especially the digital public services app Diaa[4], which became crucial in the provision of access to state support services and funds, have proved useful during wartime and made the state measures more effective.

Business support

Simplified taxation system, lower taxes, and other measures to deregulate business

- The eligibility criteria (limit on turnover, number of employees, type of economic activity) for taxpayers who can use the simplified taxation system (STS)[5] were extended and single tax rate for taxpayers under this system decreased from 5% to 2%. Though taxpayers can voluntarily choose to pay higher tax and not to join STS;

- Import taxes on essential goods, including fuel and cars, which had been abolished at the beginning of the war, were reinstated from July 1 as loopholes in the initial abolition allowed the import not only of essential goods but also of luxury items and expensive cars, thereby resulting in large losses in state budget revenues[6];

- The tax reporting system, the submission of tax returns, and the payment of new taxes were all simplified and all tax audits and penalties for tax violations were deferred;

- Businesses were granted the right to conduct economic activity without a permit and could instead do so by submitting an online declaration to the authorities (permits or licenses that expire are automatically renewed during martial law and for the three months after it ends); and

- Reduced ecological and packaging requirements, for instance, ecological standards of imported fuels and agriculture products, marking of food product packages.

Government support programs

- Business relocation program - entails temporary relocation of enterprises from war-affected regions to safer areas and offers businesses state assistance in the selection of new locations for their production facilities, transportation, and accommodation for existing staff and new recruits; and

- eRobota project - a large-scale state business support project that started on 1 July 2022, consisting of grant programs aimed at supporting small- and medium-sized businesses, startups and training programs to acquire new skills. The project currently comprises several grant programs, including non-refundable grants of up to UAH 250,000 for micro-businesses from any sector, as well as grants targeted at enterprises and startups in IT, processing, and agriculture sectors. The project also includes the "Start in IT" scholarship program offering up to UAH 30,000 in training and skills for a junior developer, data analyst, or graphic designer, as well as the extended "Affordable loans 5-7-9%" program which issues businesses with soft loans of up to UAH 2.5 million.

Monetary regulations

- Capital and current account restrictions: fixed foreign exchange rate (initially fixed at 29.25 UAH/USD, where it had been frozen during the first five months of the war. From 20 July 2022 the foreign exchange rate was risen up to 35.57 UAH/USD, while the foreign exchange rate at which banks sell foreign currency, as well as the rate for card transactions abroad was allowed to float); restrictions on transactions in foreign currencies; spending limits on hryvnia card-based payments outside of Ukraine; limits on cash withdrawals from FX accounts in Ukraine and abroad. From 6 August 2022, some of those restrictions were simplified for businesses and volunteers who financially support Ukraine allowing them to make the necessary payments in foreign currency with a minimum impact on the FX market[7].

- Key policy rate, was risen from 10% up to 25% since June 3rd, 2022. Interestingly, NBU has been postponing its key policy rate decision since the start of the war;

- Large currency interventions (for example in June, the National Bank of Ukraine was a net seller of $3,956.3 million);

- Price regulations (price caps) for fuel were introduced at the beginning of the war and were cancelled in May;

- Prudential requirements (capital, liquidity, credit risk requirements) for banks were relaxed - NBU decided not to impose sanctions on the banks for violations of prudential standards, if such breaches occurred after February 24, 2022 and are explained, and sustainability and recovery plans are provided to the NBU;

- Full public guarantee of all individual deposits in Ukrainian banks until the end of martial law, aimed at giving citizens confidence in the security of their savings; and

- Access to unlimited refinancing loans in hryvnia has been granted by NBU to Ukrainian banks at the beginning of the war so they could retain their liquidity. But on 4 May 2022, as NBU declared that "the banking system's liquidity has grown since the war broke out"[8], access to these loans has been limited only to banks that have exhausted their capability to take out secured refinancing loans and lost more than 5% of their retail deposits to deposit outflows since 23 February 2022.

Labor support

- Easier dismissal for both employers and employees: an employee can resign without notice and take unpaid leave for any period, while an employer can more easily dismiss his employee or change working conditions without notice;

- The maximum length of the working week increased from 40 to 60 hours;

- Employers may suspend wage payments until their enterprise resumes its activities;

- Simplified rules for labor-related record-keeping and archiving;

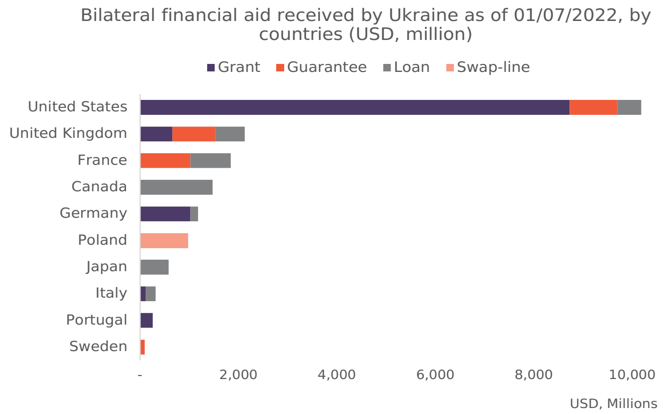
- Simplified procedures for obtaining "unemployed" status and registration of this category (IDPs can now apply for unemployment payments without identity documents and/or work records, while unemployed persons can receive unemployment payments without a personal visit to the employment centers as well and partial unemployment benefits are available during martial law); and

- A government program was launched providing compensation to businesses employing internally displaced persons, giving monthly reimbursement of salary costs in the amount of UAH 6,500 for each employee for two months.

To ensure the resilience of the wartime economy, a significant portion of assistance has already been provided to the Ukrainian government by partner countries and international organizations. Currently, as Ukraine is at the first stage of its recovery plan, also referred to as the "wartime economy" or "urgent/resilience" stage, the total funding needs for 2022 are estimated at USD 60-65 billion.

The types of partner financial assistance needed for this stage include defense, emergency budget financing, rebuilding of destroyed housing and infrastructure, and enablement/de-risking of private investment. Currently, some of the required funds have been provided for the defense, security, and macro-financial stability of Ukraine.

Throughout the first five months of the ongoing war, both governments and international institutions around the world have committed tens of billions in USD to support the country. By July 2022[9], Ukraine had received bilateral assistance of approximately EUR 76.7 (USD 78.5)[10] billion from western countries, of which USD 29.8 billion was in the form of financial aid.



Source: Kiel Institute for the World Economy, Ukraine Tracker

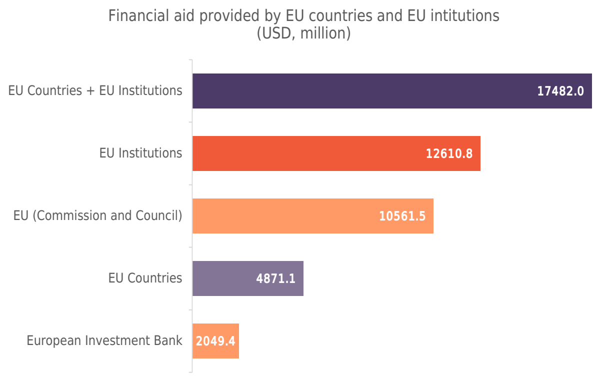
The USA has been the largest bilateral provider of financial aid for Ukraine (amounting to a total of USD 10.1 billion), making up 34% of total financial aid received by Ukraine. Out of the financial aid provided by the USA, 85.7% has come in the form of financial grants, while 9.5% was in the form of guarantee, and only 4.8% was in the form of a loan. Moreover, the USA has also been the top contributor of military aid (USD 24.4 billion, which is 68.5% of the total bilateral military assistance) and humanitarian aid (USD 9.1 billion, which is 69% of the total bilateral humanitarian assistance) to Ukraine.

The USA was followed by the United Kingdom (with total financial aid of USD 2.1 billion), France (USD 1.8 billion), Canada (USD 1.3 billion), and Germany (USD 1.2 billion). All of the financial aid provided by Canada has been in the form of loans and almost all of the financial aid provided by Germany has come in the form of financial grants (87.0%). Meanwhile, bilateral financial aid provided by Poland has generally consisted of a swap line (USD 0.9 billion) which was made available to the NBU by Poland's central bank in March 2022[11].

Looking at the EU as a whole including its member states and institutions, it has provided USD 17.5 billion in financial aid to Ukraine, which is almost double the financing provided by the USA. Of the financial aid provided by the EU, 72.2% has been contributed by EU institutions, including the European Investment Bank, the European Commission, and the Council of Europe. The latter two institutions have already provided financial aid of USD 10.5 billion to Ukraine.

Among donor organizations, the already-made contribution of the World Bank Group has been the highest and amounted to USD 2.4 billion, which was part of the initially estimated assistance of USD 3 billion. However[12], under the "Public Expenditures for Administrative Capacity Endurance in Ukraine" project, the additional financing for Ukraine was announced by the World Bank on 7 June (USD 1.5 billion) and on August 8 (USD 4.5 billion), modifying the initially estimated USD 3 billion and forming part of a total support package of over USD 8.5 billion.

Furthermore, on 9 July, a draft agreement was approved to provide Ukraine with a USD 1.7 billion grant from the Single Donor Trust Fund, created by the IBRD (the lending arm of the World Bank Group), IDA of the World Bank Group, and USAID.



Source: Kiel Institute for the World Economy, Ukraine Tracker

The World Bank was followed by the IMF[13], which in total allocated EUR 2.1 bln of financial aid to Ukraine, out of which Rapid Financing Instrument (amounting to EUR 1.4 bln) was agreed to less than two weeks after the invasion. The European Bank for Reconstruction and Development (EBRD) has also been among the top sources of financing to Ukraine, in total providing financial assistance of USD 1.9 billion.

Despite the financial efforts and commitments made by international institutions and countries, the need for funds for the recovery and development of Ukraine exceeds the assistance thus far given. According to the National Recovery Plan, for the ongoing "resilience" stage, additional funding is still needed to initiate the following 15 national programs identified by the National Recovery Council to ensure the resilience of the wartime economy, post-war recovery, and the development of a new and modernized economy:

1. Strengthen defense and security
2. Strive for EU integration
3. Re-build a clean and safe environment
4. Strengthen integrated energy system resilience and support the EU's zero-carbon energy transition
5. Boost the business environment
6. Ensure emergency funding and competitive access to funding
7. Secure macro-financial stability
8. Grow value-adding sectors of the economy
9. De-bottleneck logistics and integration with the EU
10. Recovery and upgrade of housing and regional infrastructure
11. Recovery and modernization of social infrastructure
12. Improve the education system
13. Upgrade the healthcare system
14. Develop culture and sports systems
15. Secure targeted and effective social policy

The total funding needed to accomplish these National Plans is estimated to be USD 750 billion with international partners expected to contribute two-thirds of this sum. Apart from partner grants, the types of funding needed to achieve the main objectives of Ukraine's National Recovery Plan would include partner debt, partner equity, and private investment. Therefore, according to the National Recovery Plan, the partner countries and international organizations are expected to further increase their funding of Ukraine in the near future.

1 According to the President's Decree "On the Introduction of Martial Law in Ukraine" and the Resolution of the Cabinet of Ministers of Ukraine on "Issues Related to the Introduction of and Ensuring the Implementation of Measures of Martial Law in Ukraine," this entails a special legal regime, which grants military authorities the powers (either independently or together with other relevant state bodies) to adopt special legislation in various areas.
2 On 17 May 2022, the President's Decree "On the Extension of the Period of Martial Law in Ukraine" extended the period of the martial law regime until 23 August 2022, but it can be further extended unlimited times. Martial law terminates in case of expiration of its period or adoption of the President's decree on the termination of martial law
3 Ukraine's National Recovery Council introduced "Ukraine's National Recovery Plan" during the conference in Lugano on 4-5 July, 2022.
4 Diaa portal, available in forms of web and mobile application, and allowed online access to over 50 publice services. More on Diia app can be found at: https://ukraine.ua/invest-trade/digitalization/
5 Source: https://financialpost.com/pmn/business-pmn/ukrainian-parliament-restores-import-taxes
6 In Ukraine, the enterprises and private entrepreneurs that use the simplified tax system (STS) pay a special tax (single tax) that replaces some of the other taxes and fees – corporate income tax, personal income tax and value-added tax (VAT).
7 For more information see: https://new.bank.gov.ua/en/news/all/natsionalniy-bank-zdiysnyuye-kroki-dlya-pidtrimki-diyalnosti-volonteriv-ta-biznesu
8 Source: https://new.bank.gov.ua/en/news/all/utochneno-poryadok-nadannya-kreditiv-refinansuvannya-dlya-pidtrimki-likvidnosti-bankiv
9 Source: ttps://www.ifw-kiel.de/publications/kiel-working-papers/2022/ukraine-tracker-17204
10 For the simplicity throughout the text the values provided in EUR will be exchanged in USD with a rate of EUR 1 = USD 1.0234 (9 August 2022, European Central Bank)
11 Source: https://www.euronews.com/next/2022/03/21/ukraine-crisis-poland-cenbank
12 Source: https://www.worldbank.org/en/news/press-release/2022/08/08/world-bank-mobilizes-4-5-billion-in-additional-financing-for-vital-support-to-ukraine
13 Source: https://www.imf.org/en/News/Articles/2022/04/21/opening-remarks-by-the-managing-director-ukraine-roundtable-april-21-2022#:~:text=The%20IMF%20has%20played%20its,direct%20financial%20assistance%20to%20Ukraine.

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Giorgi Khishtovani
Research Director
g.khishtovani@pmcginternational.com

Nika Kapanadze
Researcher
n.kapanadze@pmcginternational.com

Anastasia Chkhenkeli
Junior Researcher
a.chkhenkeli@pmcginternational.com

Nana Kajaia
Junior Researcher
n.kajaia@pmcginternational.com