

ProSME BUSINESS INTELLIGENCE (#3) – UKRAINE

Financing

- [IMF Executive Board Approves US\\$15.6 Billion under a New Extended Fund Facility \(EFF\) Arrangement for Ukraine as part of a US\\$115 Billion Overall Support Package.](#) The overarching goals of the authorities' program are to sustain economic and financial stability of Ukraine.

In view of the exceptionally high uncertainty faced by Ukraine, its IMF-supported program envisions a two-phased approach:

In the first phase of the program, envisaged during 2023-24, the focus will be on implementing a robust budget for 2023 and sustaining steady disinflation and exchange rate stability. The IMF Executive Board's decision allows the immediate disbursement of US\$2.7 billion for this part of program.

The second phase of the program will shift focus to more ambitious structural reforms to support the recovery and early post-war reconstruction.

- [EIB approves "EU for Ukraine" Initiative to finance Ukraine recovery and reconstruction, and backs transport, energy, and business investment around the world.](#) The Board of Directors of the European Investment Bank (EIB) today approved a new scheme to finance reconstruction and recovery in Ukraine. The EU for Ukraine Initiative is conceived as a temporary scheme which will enable continued EIB engagement in the country while expected medium term EU support is put in place.

The EIB will establish the EU for Ukraine Fund to enable European Union member states, the European Commission and other countries and donors to support reconstruction and recovery in Ukraine. The EU for Ukraine Fund will provide credit enhancement to EIB loans for both public and private sector investment.

The EU for Ukraine Initiative will be accompanied by a EUR 100 million dedicated technical assistance package. This will provide best-practice reconstruction advisory expertise in Ukraine and Moldova.

- [According to the Prime Minister of Ukraine, the Ukrainian government has more than 150 billion UAH \(4 billion USD\) to reconstruct residential buildings and critical infrastructure.](#) This amount comprises 17 billion UAH confiscated from the subsidiaries of Russian banks, 50 billion UAH from the income of the National Bank, 2.3 billion USD allocated by the USA and 1 billion EUR granted by the European Commission.

Investment environment

- [UkraineInvest, the Ukrainian government's investment promotion agency, regularly updates "UkraineInvest Guide: Rebuilding Ukraine with Private Sector"](#)

The document contains an analytical overview of the Ukrainian economy, investment profiles of Ukraine's regions, and advantages for launching investment projects in Ukraine. The report also contains information on current investment incentives for

domestic and foreign investors. The guide can be found at the link: <https://ukraineinvest.gov.ua>.

➤ Events within the scope of the reconstruction

➤ [On February 15-16, 2023, Premier Expo, Ukrainian exhibition company, organized an international exhibition and conference Rebuild Ukraine](#)

The event was dedicated to the recovery processes in Ukraine and aimed to unite and present to the attendees governmental, international, and social offers for the reconstruction and development of Ukrainian local communities, cities and municipalities destroyed during the war.

There have been exhibited 23 Ukrainian municipalities, mainly from Eastern and Central Ukraine. Each community presented several investment projects for recovery of their region: mostly reconstruction of damaged infrastructure but also renovation and modernization of existing infrastructure and a significant focus on industrial parks.

There have been 22 countries represented with 12 national pavilions under the support of its governments. There was observed a significant interest of the private sector in Ukraine's reconstruction. Private companies presented under national pavilions were from various sectors, including construction, infrastructure & engineering; energy systems & HVAC; machinery for the construction industry; IT; water treatment; logistics & transportation.

The next edition of the ReBuild Ukraine fair will take place in November 14-15, 2023, in Warsaw, Poland. More information about the fair: <https://rebuildukraine.in.ua/en>

Sectoral overview

➤ **Priorities of the Ukrainian energy sector**

Since the beginning of the full-scale invasion, the Ukrainian energy system has suffered 14 massive missile attacks and 17 massive drone attacks - 255 hits on the energy infrastructure in total. Following these attacks and the occupation of the territories, Ukraine temporarily lost part of the powers of energy production:

- 90% of wind power generation
- 75% of the power of thermal power generation
- 44% of nuclear energy production
- 33% of cogeneration power
- 30% of solar energy generation

According to estimates, the total amount of damage amounts to 6.8 billion USD.

As a reminder, since February 13, Ukrenergo, the electricity network operator in Ukraine, has no longer carried out scheduled power cuts. Instead, according to the Ukrainian Minister of Energy, the current volume of electricity production meets the needs of consumers. This situation is due to the emergency repair works, urgent or planned, to the increase of hydroelectric output and international aid in the energy and defence sectors.*

According to Mr Volodymyr Kudrytskyi, Chairman of the Board of Directors of Ukrenergo, the Ukrainian energy sector is working in two priority directions: preparation works for winter 2023-2024 and improvement of the system of protection of objects of energy

infrastructure. Measures are therefore taken to increase electricity production, prepare a stock of maintenance equipment and minimize the potential consequences of military attacks on the energy system (e.g., the plan to bury power lines and thermal power plants is under study).

Similarly, the Ukrainian energy system is preparing for a new challenge, the summer period, when maintenance work on thermal power plants is scheduled and when electricity consumption traditionally increases compared to spring.

At the same time, Ukrenergo launched a reflection on the design of Ukraine's energy system in the coming years. In particular, possible changes to the country's energy mix are being considered, such as replacing coal-fired thermal power stations with nuclear, "green" energy and electricity storage systems. This change would need energy production balancing sources like gas, biomass or biogas power plants. As part of this project, Ukrenergo has already determined the optimal connection points to the electricity grid of 20-25 gas-fired power plants.

Also, the Ministry of Energy of Ukraine allowed the resumption of electricity exports during conditions of surplus generating capacity. The capacity for export allowed by the European network of transmission system operators ENTSO-E is 400 MW. However, the export of electricity will be carried out while providing Ukrainian consumers with electricity and may stop in the event of a change in the current situation.

Sources: *Forbes Ukraine*, <https://toplead.com.ua/>, <https://biz.censor.net/>, <https://ubn.news/>

*As for the 27th of February 2023

➤ **Health system during and after the war**

The health sector in Ukraine before the war was not in the best condition, and a year of war aggravated this situation. Medical reform, which Covid-19 hampered, retained most of the public health problems. The main shortcomings of the Ukrainian medical sector were and remain today:

- underfunding of the industry;
- lack of qualified personnel, especially in rural areas;
- obsolete system of medical institutions;
- lack of necessary conditions for the development of health insurance;
- lack of vision of the development strategy of the medical sector.

All the problems in the health sector have been aggravated by the war - in particular, by the destruction of the medical infrastructure, both by missile strikes and artillery fire. Thus, according to information from the Minister of Health Viktor Liashko, about 200 hospitals were destroyed, and more than 1200 had different levels of destruction.

The country's wartime priority is to resolve its current problems in such a way that they become the basis for future positive long-term change. The priority objectives defined for 2023 are, therefore, as follows:

- resumption of reconstruction or renovation of medical establishments;
- implementation of physical and psychological rehabilitation programmes;
- increase in the level of vaccination of the population to prevent epidemics;

- establishment of mobile brigades in dangerous areas and unoccupied territories;
- development of digital projects in health to promote access to medical care.

The World Bank will allocate the necessary funds under a loan agreement. The number of investments in the health field would be 100 M EUR. The Global Fund also gives an additional non-reimbursable grant of 10 M USD. The overall cost of implementing the health sector recovery program is estimated at 500 M USD.

Source: <https://nv.ua>

➤ Construction sector in Ukraine during the wartime

The share of construction in Ukraine's GDP has been slightly increasing since 2015, when it accounted for 2.3%, and until 2020-2021 to reach 3.3%-3.2% respectively (this share constitutes 5-7% in the EU countries).

During 2021, the supply in the residential real estate sector reached its historical maximum for the last 30 years, with 11.4 million m² of housing put into service. The start of pre-war 2022 demonstrated the same trend, with the pace of new housing coming into service at 2021 levels.

The start of the war in Ukraine disrupted and significantly reduced the building materials sector. Notably, in the first half of 2022, many companies were forced to suspend or limit production due to bombings, high gas prices and weak market demand. In the second half of 2022, the main challenge for the operation of companies was the limitation of electricity volumes due to damage to energy infrastructure caused by Russian missile attacks.

Therefore, building materials produced until recently by Ukrainian manufacturers must be imported, which also affects the construction cost. In general, in 2022, the prices of building materials have increased by an average of 60% and the cost of construction works by 30%. This trend will continue depending on the growth of the exchange rate and inflation.

Following these factors, work on the construction sites has been suspended (some remain suspended), and a few new projects have been launched recently. As a result, in 2022, the total area of housing put into service was 7.1 million m² (18,300 single-family houses and 74,300 apartments), which is 38% less than in 2021.

However, the most severe problem in many Ukrainian regions' residential real estate market is the bombings. As a result of active hostilities, as of September 2022, 74.1 million m² of housing has been destroyed or damaged, i.e., more than 7% of the available housing stock. This estimate exceeds the volume of all new housing put into service in the last seven years and is likely to increase further.

Recently, the Ukrainian Parliament voted on a law defining the specificities and procedures for compensating the destroyed and damaged goods. As regards local housing renewal initiatives, several programs of this type have started to be implemented in the Kyiv region, but on an ad hoc basis.

Also, the government is setting up real estate loans to revive the construction sector. Since October 2022, the state affordable loan program eOselia has been operational in

Ukraine. It offers the possibility to obtain a preferential loan for housing at 3% per annum for up to 20 years. It is only accessible to a few social categories: military, law enforcement, doctors, and education workers.

Sources: *Forbes Ukraine*, <https://interfax.com.ua/>, <https://biz.censor.net/>

Tetiana YUSHKO, Business France
Tetiana KALACHYK, BTI