

BESPOKE

Ukraine

Post-Conflict Investor Opportunities

An Early Look Ahead

Extract from Main Report

Investors Take an Early Look Ahead

Population and GDP, 2024E

Population*	43.5
Population**	31.5
GDP, Nominal, US\$ bln	\$193
GDP/Capita, US\$	\$4,431
GDP/Capita, US\$	\$6,118
GDP/Capita, PPP, US\$	\$10,731

Source: Worldometers, World Bank, M-A

*pre 2022 population calculation

** current estimated population and calculation

Key Macro Forecasts

	2023E	2024E
Growth, real % YoY	4.8%	3.5%
CPI - year-end, % YoY	5.1%	6.0%
Budget balance, % GDP	-26.0%	-18.0%
Current account, % GDP	-7.0%	-9.0%
Unemployment, % eop		
State Debt + Gnts*, \$bln	\$151	\$187
State Debt + Gnts*, % GD	87.0%	97.0%
NBU key rate, %	15.0%	13.5%
UAH/US\$, year-end	37.9	40.0
UAH/US\$, average	36.5	38.5

Source: Macro-Advisory estimates

Exports, %

Cereals	20.6%
Animal and Vegetable oils	13.5%
Iron & Steel	10.3%
Oil Seeds, Nuts, Fruits	8.5%
Ores, Slag, Ash	6.9%
Electrical Equipment	5.8%

Source: Comtrade

Imports, %

Fuels, Oils	23.2%
Vehicles	9.5%
Electrical Equipment	9.0%
Nuclear and Mechanical	7.6%
Plastics	8.5%
Pharmaceuticals	3.5%

Source: Comtrade

Corruption Ranking (2023)

Corruption Perception (of 180)	104
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Source: Transparency Int'l

Credit Ratings

Issuer	Rating	Outlook
S&P - March 2024	CC	Negative
Moody's - February 2023	Ca	Stable

Source: Credit Agencies

Tax Rate

Corporate Tax rate, %	18%
Personal Income Tax rate, %	18%
Sales Tax rate, %	20%
Social Security rate, %	22%
for employers	22%
for employees	0%
Withholding Tax	15%

Source: Ministry of Finance

Depends on how the conflict ends. The long-term investment attractiveness of Ukraine, and the timing for that investment, is directly dependent on the outcome of its conflict with Russia. We set out the main scenarios for how the conflict may continue and end and use a Base Case as the underlying assumption for our forecasts.

Investor due diligence has started. Although there is no clarity about the future, strategic investors and multi-national investors have begun due-diligence investigations to better understand how they may engage in the economic recovery and to prepare for it.

Key sectors. The main areas of focus include Construction and Infrastructure rebuild; Consumer and Service; Critical Mineral development and processing; Energy; Food and Agriculture; Technology; and Transport infrastructure. The country is also expected to continue building its defense industry. State support and investment is to be provided under the EU's EUR50 bln Ukraine Facility Program (details in this report).

Renewable energy. Ukraine will not return to fossil fuel energy generation but is already determined to be the leader in renewable energy in Europe.

Lviv and western regions will see more investment. It is also expected that most investment will be directed in the country's western regions, i.e. closer to the main EU markets and transport routes. But agriculture will remain focused on the traditional farming regions.

Reforms will accelerate. The country had already started to tackle such areas as land reform, bank sector reforms and corruption before February 2022. The process will accelerate once the conflict ends, as people will expect it, aid donors will demand it, and the EU will make reforms a key part of the membership process. It is already a key condition for the EUR50 bln Ukraine Facility Program. Privatizations are expected to form a key part of the revitalized reform agenda.

Aid and people will be critical. Ukraine will need a significant amount of external financial aid for many years after peace starts. The burden is expected to fall on the EU but political leaders in Brussels are expected to continue with efforts to make Russia pay in one form or another.

Macroeconomic forecasts assume a base-case scenario. Our macro forecasts (table on left and in Appendix 1) assume the conflict winds down to a lower level of intensity by end this year (refer to our regular *Russia-Ukraine Conflict Sitrep* reports for updates) and either reaches a sustainable stalemate or negotiated peace in 2025. We carry out other scenario-based modeling on request for clients.

Debt holders may expect at least a 50% haircut. Based on previous post-conflict restructurings, e.g. in the Balkans, bond holders are likely to face at least a 50% haircut as part of the debt restructuring.

Hryvnia to devalue slowly. The NBU is expected to continue with its flexibly managed currency policy until the conflict ends. Afterwards, it is expected to manage the currency lower against the US dollar and the euro to help boost economic competitiveness and to reduce the trade deficit.

Ukraine Coverage

We are resuming active coverage of Ukraine from the viewpoint of strategic investors and multinational corporations. The reason, and despite the fact there is no clear view as to how the conflict will end or how long it will take before and end is reached, is because we see a steady rise in due-diligence being carried out by investors and multinationals who are starting to consider strategies for returning to Ukraine or, for those already active in the country, to step-up investment and expansion.

Macro-Advisory provides bespoke due diligence – including comprehensive regulatory and industry power and influence mapping services – and in-depth analysis of macroeconomics, politics, key-industry trends, business opportunities, and risk assessment for Ukraine and across all Eurasia states. This report provides a top-down review of the key topics in Ukraine today in summary format. We provide greater depth and analysis for clients as requested.

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Introduction Investor Due Diligence is Increasing

Investor interest is growing. Despite ongoing hostilities and no clear end in sight, there is growing investor interest in Ukraine. Several new strategic investments have already been announced since the beginning of the war across a range of sectors, primarily by international companies with an existing presence in the country. More potential investors are monitoring the market closely and stepping up due diligence to be ready to invest once the security situation improves.

The key drivers of Ukraine's medium to long-term prospects will be:

1. **The course of the war and long-term security arrangements:** In the base case scenario (see next section for explanation of assumptions), i.e. it is assumed that the conflict will be protracted, although gradually moving from a high-intensity phase to a lower-intensity phase with a hardening of the line of contact. The threat to general security and critical infrastructure from drone/missile strikes throughout the country may also persist through to end 2024, but it is assumed that improving Ukrainian air defenses will increasingly neutralize this threat over time.
2. **The extent of damage and impact on the economy:** A World Bank-led rapid assessment of reconstruction and recovery needs over the next decade, based on damage and losses incurred up to the end of 2023, estimates damage to infrastructure/physical assets of more than US\$150 bln and total reconstruction needs of almost US\$490 bln (including a 'build back better' premium). The Ukrainian government estimates total reconstruction and recovery costs at around US\$1 tln (to put this into perspective, Ukraine's 2021 GDP was US\$200 bln). See commentary about funding support later in this report).
3. **The return of refugees:** The conflict has led to major displacement of Ukraine's population, with the UN estimating around 6.5m refugees and 3.7 mln IDPs (Internally Displaced Persons) at end-2023 out of an estimated pre-2022 total population of 43.5 mln and 37 mln on Ukrainian government-controlled territory. Most refugees have settled in Europe, with around 1.1m in Germany and 1m in Poland. In addition, there are an estimated 1.2m displaced/refugees in Russia. One of the key challenges the Ukrainian government faces is to create conditions for refugees to return home once the security situation improves, bringing foreign work experience and know-how back with them. Conversely, a failure to create the right conditions could lead to further population outflows once the government lifts restrictions on draft-age men leaving the country.
 - a. Ministry of Economy recovery plans, which assume a 7% annual growth target, estimate that to achieve this the country's labor force will have to grow by up to 4.5 mln over the next decade. According to a survey conducted by Gradus among refugees in October 2023, 63% planned to return home (compared to 67% a year earlier) and 18% planned to stay (compared to 8% a year earlier), with the rest undecided.

4. **The success of structural reforms in improving the investment climate:** Critical to achieving growth in the medium to long term will be the Ukrainian government’s success in implementing structural reforms to enable high levels of domestic investment, FDI, and technology transfer. The EU accession process (together with international donor conditionality) will be key to providing the support, focus, and incentives for Ukraine to forge ahead with necessary reforms, including anti-corruption, judicial, and public administration reform.
5. **EU membership ambition.** Having been granted candidate status in June 2022, a December 2023 meeting of the European Council approved the launch of formal membership negotiations with Ukraine per the recommendation of the European Commission. European Council President Charles Michel has indicated 2030 as a target date for accession, although based on previous accession processes it will likely take at least a decade for Ukraine to be institutionally ready to join.
6. **Long-run opportunities.** As well as the EU membership, improvements in governance should help to widen the economic base from the traditional sectors of metallurgy and agriculture. Although Ukraine is not a large market and can be supplied from other EU producers, it should be attractive because of a cheaper, well-educated workforce, and some FMCG companies will want to move closer to the Ukrainian consumer.

Ukraine – Key Macro Trends & Forecasts

	2020	2021	2022	2023E	2024E	2025E
GDP, US\$ bln	\$154	\$200	\$161	\$174	\$193	\$188
GDP, real growth, % YoY	-3.8%	3.4%	-29.1%	4.8%	3.5%	4.5%
Central Bank Policy rate, eop, %	6.0%	9.0%	25.0%	15.0%	13.5%	12.0%
CPI, eop, % YoY	5.0%	10.0%	26.6%	5.1%	6.0%	6.0%
Budget balance, % of GDP Consolidated	(5.3%)	(3.4%)	(15.3%)	(26.0%)	(18.0%)	(10.0%)
Current account, % GDP	3.4%	(1.9%)	5.0%	(4.0%)	(7.0%)	(9.0%)
Government debt, % GDP	61%	49%	79%	87%	97%	101%
Hryvnia/US\$, eop	27.9	27.1	37.0	37.9	40.0	44.0
Hryvnia/Euro, eop	34.3	32.0	38.8	41.9	43.2	48.4

Source: State Statistics Service of Ukraine, Macro-Advisory Ltd

SWOT Analysis (Based on our Base Case Scenario)

<p>Strengths</p> <ul style="list-style-type: none"> Western support Returning population – many with skills Highest percentage of people with tertiary qualifications among ENP-East countries – 58% average Agriculture and raw materials exports Home to over one quarter of the world’s chernozem or “black earth” Strong civil society and stronger national identity 	<p>Weaknesses</p> <ul style="list-style-type: none"> Destroyed infrastructure High debt Defense spending requirement Oligarchs are still powerful Resource dependency
<p>Opportunities</p> <ul style="list-style-type: none"> EU member candidate status – should help get reform legislation passed quickly De-regulation and success in anti-corruption measures boost economy Middle Corridor and access to Chinese and European markets New energy infrastructure will be primarily Renewables and will allow Ukraine to be a major centre for RES to the EU Rebuilding enables the abandonment of inefficient practices and bureaucracy, and leapfrog in technology New growth sectors, such as Technology 	<p>Threats</p> <ul style="list-style-type: none"> Russia may seek to continue disrupt the economy or cause instability in domestic politics and society Narrow export base Corruption, and the lingering perception, may be harder to eliminate Some states may delay Ukraine entry to EU because of agriculture sector protectionism Highly vulnerable to a cut in external aid for many years ahead

For a copy of the full note and information about our range of services, please email info@macro-advisory.com

Who Are We?

- Macro-Advisory is an independent Eurasia-based consultancy providing international companies and investors with strategic advisory services throughout the CIS-Eurasia region.
- Macro-Advisory's coverage footprint includes the entire CIS-Eurasia region plus Mongolia.
- For our clients, we carry out market and sectoral analysis, risk assessments, and deep due diligence work across all the key industry sectors in all the countries in the region.
- We keep our clients fully informed of the relevant trends and events which impact on their business.
- We assist local business teams and management in headquarters to help ensure a strategic focus and success for our clients' businesses.
- We are experts on the Eurasian Economic Union (EaEU) and help our clients assess the opportunities and implications of the economic bloc.
- We are experts in the operation of the Chinese-promoted Belt & Road Initiative (BRI) and in helping our clients understand the opportunities arising from this expanding trade and transport network.

Our Competitive Advantages

- **Local.** From several locations in Eurasia, we cover the entire CIS-Eurasia region. We have an available network of industry specialists across the region to assist with project work as required. We also have offices in London, Washington, and New York, from which we can regularly engage with our clients.
- **Independent.** We are independent and this allows us to offer completely impartial advice. We combine coverage of economics, politics, industry, and social trends to provide the most comprehensive analysis for our clients.
- **Experienced.** The combined experience of our key personnel living and working in the CIS-Eurasia region is over 150 years.
- **Network.** We have built a substantive network of contacts in government and regulatory agencies as well as in other relevant bodies. This allows us to consult with decision-makers and policy influencers, and to gain better insights into evolving events.
- **Commercial.** All our reports come with commercially relevant and, more importantly, actionable recommendations.
- **Reports.** All our clients get regular reports updating and provide analysis of economic and industry data as well as an assessment of all relevant news and events that are important for companies and investors in the region.
- **Briefings.** We host regular client briefings, including quarterly events with special guest speakers. We also organize formal presentations for clients, including at the management and board level.

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