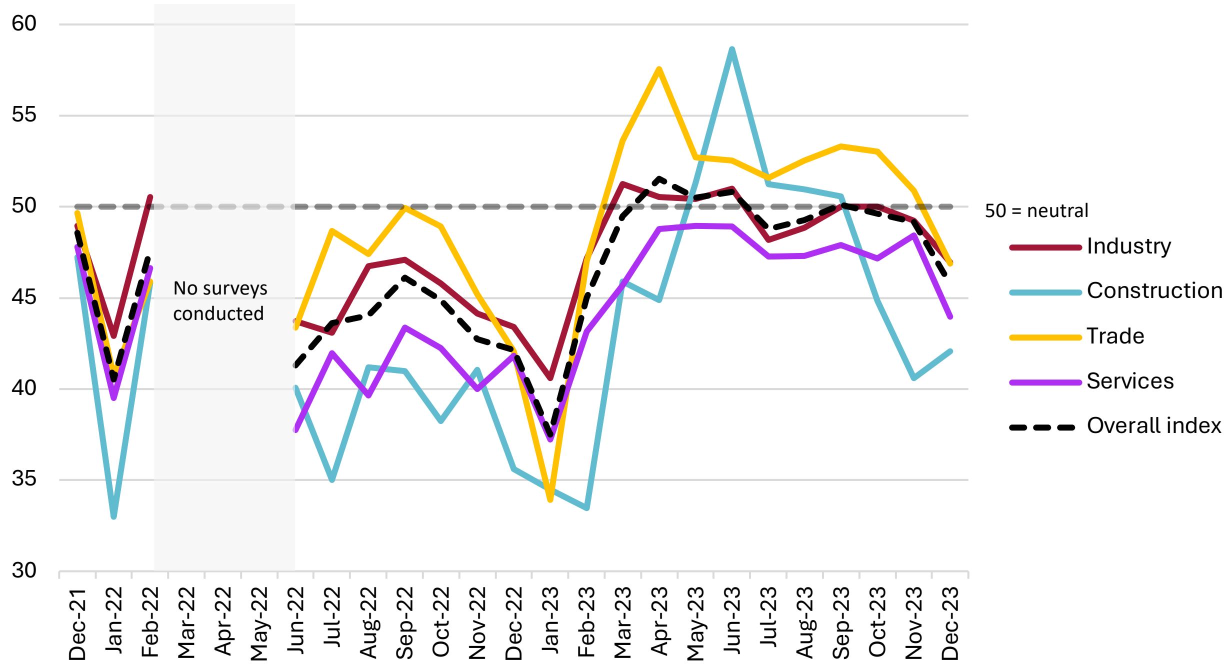
Ukrainian business activity expectations at 10 month low
The December slump tarnishes a solid economic performance in 2023
January 2024

Figures released on Tuesday by the National Bank of Ukraine showed a sharp decline in business confidence in December.

The monthly survey of over 400 Ukrainian businesses dropped by 3.4 points to 45.7, reflecting downgraded expectations about current and future performance in industry, services and trading companies.

Falling well below 50, the value for neutral expectations, the index reached levels last seen in February 2023, a period marked by a major Russian ground offensive and emergency blackouts caused by missile strikes.

Index of expectations of business activity



Source: National Bank of Ukraine Market Surveys, available here; chart in excel by me.

“[The decline] is explained by the border blockade in Poland and rising fuel prices” according to Stanislav Zinchenko, CEO of Ukrainian manufacturing consultancy GMK.

Polish truckers have blockaded the Ukrainian border since November 2023 in protest of unfair Ukrainian competition. Over 2,000 trucks are unable to enter Poland from Ukraine according to Zinchenko, who estimates the cost to Ukraine at over €1 billion per month.

Uncertainty over foreign aid compounded downward expectations in December after Hungarian Prime Minister Viktor Orbán vetoed a European Union (EU) aid package worth over €50 billion. The aid is intended to help Ukraine combat Russian military advances over the next four years. EU leaders are hoping to find a solution at a special summit on 1 February.

The downturn comes at the end of a surprisingly successful year for the Ukrainian economy. Ukrainian GDP is expected to have grown up to 5% in a “stronger than projected” recovery according to the International Monetary Fund.

The recovery was spurred by improved supply routes, a stable power supply, a strong harvest, and lower emigration. Industrial production increased by 10% and retail trade, in real terms, returned to close to 90% of the pre-war level according to Vitaliy Vavryshchuk, head of macroeconomic research at Ukrainian investment group ICU.

"Domestic and external demand drove the strong recovery in 2023. Ukrainians increased their spending using high savings accumulated in 2022 and exports started to grow, such as iron ore and metals, which Ukraine exports by sea and overland," says Vavryshchuk, who is optimistic that current challenges will be quickly overcome.

Russia withdrew from the Black Sea Grain Initiative in July 2023, a United Nations brokered deal which let Ukraine export via the Black Sea. Ukraine has since diversified its export routes and now relies on land routes through Poland, Danube River ports on bordering Romania, and a new sea corridor.

Reni and Izmail have become crucial ports for Ukrainian exports

Source: my adaptation based on The Economist, Financial Times and Kyiv Independent, using Datawrapper & Adobe Illustrator.

"Everyone expected the collapse of the grain deal to reduce growth, but exports may be a significant contributor to economic growth in 2024 in Ukraine."

Vavryshchuk believes that Ukraine can attain over 80% of its pre-war economy by 2025 through domestic and external demand.

But a long-term plan beyond 2025 remains elusive. The World Bank estimates that over $400 billion is needed to reconstruct Ukraine, much of which will have to come from private investors.

Despite cheap assets, a well-educated labour force and robust export infrastructure, Ukraine has historically received some of the lowest foreign investment in the world due to corruption and rule of law concerns.

“Until Ukraine has a working judicial system, we won’t see big inflow of investments” Dmytro Boyarchuk, Ukrainian economist explained.

“Combined with poor safety conditions due to Russian bombing, it is hard to see why private investors would take the risk.”