



Ukraine reconstruction project

The newsletter on the main recent developments

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Welcome to the 6th edition of our newsletter, we are happy to share with you the latest insights from Ukraine's economic landscape, showcasing remarkable signs of economic stabilization in 2023 and shedding light on international support and key initiatives within the private sector.

Ukraine's economic resilience and recovery in 2023 are noteworthy, as reaffirmed by Ukraine's international partners during the IMF and World Bank Annual Meetings 2023 in Morocco from October 9-15, where a special focus was given to Ukraine.

The nation is attracting significant international attention, evident in initiatives like the joint French-Ukrainian defense seminar, MIGA's support for the M10 Industrial Park Project, and Korea's agreement for low-interest loans to aid reconstruction projects.

Ukraine reconstruction: key figures

Macro

Despite facing substantial economic challenges in 2022, Ukraine is demonstrating impressive signs of overall economic stabilization in 2023. This positive trajectory has bolstered the country's ability to secure international support. The expected GDP growth by the end of the year surpasses the figures from the beginning, the inflation is slowing down, the international reserves remain at a commendable level.



The Ukrainian government has successfully garnered significant financial support, allocating \$45.6 billion for state budget financing since February 2022. The sources of financing for the state budget encompass military bonds, loans from international financial organizations, as well as bilateral loans and grants. This multifaceted approach highlights Ukraine's commitment to securing diverse funding channels for its economic recovery.

- **1-3% of GDP growth expected in 2023 by IMF and 4,7% by the Ministry of finance of Ukraine** compared to 29,1% drop down in 2022;
- **19,5% of GDP growth in the second quarter 2023** compared with the same period in 2022;
- **7.1% year-over-year is a level of inflation** in September that decreased from 26,6% for the 8 months of 2023;
- **20% of interest rate** set by National Bank of Ukraine compared to 25% in the beginning of the year;
- **\$40 billion USD** is a level of international reserves in the beginning of September 2023.
- **\$45,6 billion** of state budget financing since February 24 from which **\$11,8 billion of military bonds** and **\$33,8 billion from international partners** (\$ 14,7 billion being funded by EU).

On September 15, the Cabinet of Ministers submitted to the Verkhovna Rada the draft state budget for 2024. The Ukrainian parliament is currently reviewing it in committees in preparation for the upcoming vote. The draft budget presents as follows.

- **UAH 1.746 trillion** of revenues;
- **UAH 3.309 trillion** of expenditures;
- **UAH 1.594 trillion** (almost \$ 42 billion) of budget deficit for 2024 or 20,4% of GDP to be covered from international assistance.

Sources: National Bank of Ukraine, Ministry of finance of Ukraine, Verkhovna Rada

International benchmark

MIGA insures investment in Industrial Park in Ukraine

The Multilateral Investment Guarantee Agency of the World Bank (MIGA) has issued guarantees of up to \$9.6 million in total to UIPH Ukrainian Industrial Property Holding Limited of Cyprus for its investments in the form of equity and a shareholder loan into the **M10 Industrial Park Project**. The tenor of the MIGA guarantee is up to 10 years against the risk of war and civil disturbance.

The guarantees provide urgent support for the **construction and operation of a warehouse facility and supporting infrastructure in the M10 Industrial Park in Lviv, located in western Ukraine**. The project will offer new industrial and logistics warehouse space essential for sustained economic activities during both the war and post-war reconstruction.



The project is expected to support Ukraine's economic growth during the challenging period and create new jobs and generate tax revenue for the government. Moreover, it will provide an alternative for displaced firms to continue their operations during the war. The facility will obtain an international green building certification for its environmental sustainability and energy efficiency.

UIPH (Ukrainian Industrial Property Holding Limited) is an investment holding company that specializes in commercial real estate investments in Ukraine. Its shareholders are Dragon Capital Investments Limited, a member of the Dragon Capital group of companies, with 65%, and the EBRD, with 35%. The EBRD stepped into the project in the beginning of 2023.

Source: MIGA, Ministry of Economy of Ukraine, Dragon Capital

The joint French-Ukrainian defense industry seminar

September 18-20, the Ministry of Strategic Industries of Ukraine hosted the first joint Franco-Ukrainian Defense Industry Seminar, in partnership with the French land defense and security industry association (GICAT). The seminar brought together over 35 French and approximately 80 Ukrainian companies, industry business associations, support clusters like *Defence Tech*, representatives of the Ukrainian defense and security sector, and members of the diplomatic corps.

Deputy Minister of Strategic Industries of Ukraine, Sergiy Boyev, emphasized **Ukraine's aim to become a leading defense industry and an arsenal for the free world**. The integration of international companies into the development of Ukraine's defense sector is a pivotal objective in achieving this aim. The seminar was considered a significant step in establishing long-term partnerships between defense companies from Ukraine and France.

Executive Director of GICAT, retired General Jean-Marc Duquesne, highlighted the event's role in enhancing collaboration and knowledge exchange, expressing hope for long-term cooperation between companies in both countries.

The seminar included representatives from the **Brave1 defense tech cluster**. Brave1 aims to facilitate the growth and dynamic development of progressive defense tech teams through international partnerships, investment attraction, and joint projects.

The presence of the French GICAT delegation, fruitful B2B meetings between business communities from both countries, and the keen interest in the defense innovations presented by Brave1 were considered positive outcomes. The companies expressed readiness for both short-term and long-term cooperation.

Source: Ministry of strategic industrial sectors of Ukraine

IMF second review of EFF Program for Ukraine, Ukraine Capacity Development Fund and resuming work of its representative office in Kyiv

End of September, the mission of the International Monetary Fund started technical discussions with the Ukrainian authorities on recent economic developments as well as fiscal, financial, and structural policies for the 2nd review of the IMF Extended Fund Facility (EFF) program. The week after, the fund's delegation arrived in Ukraine (for the first time since February 2020). An IMF team, led by Uma Ramakrishnan, Deputy Director of the Fund's European Department, started meetings in Kyiv with the Ukrainian authorities and other stakeholders.

In June, the IMF concluded the first review of this program, bringing the **IMF's support this year to US\$3.6 billion, out of the US\$15.6 billion available under the 4-year EFF program**. An additional **US\$900 million will be available in December upon completion of the second review**, subject to the IMF Board's approval.

IMF established a **Ukraine Capacity Development Fund to help the authorities further strengthen their ability to meet the economic challenges ahead**. The IMF is seeking US\$65 million over five years to scale up capacity development in Ukraine in priority areas supported under the IMF program. Notably, contributions from donors, including the Netherlands, Slovenia, Lithuania, and Japan, have already reached approximately US\$14.5 million.

In a significant announcement during the annual IMF and World Bank meeting in Marakesh, Kristalina Georgieva, the Managing Director of the IMF, declared the reopening of the IMF's permanent representative office in Kyiv.

Source: IMF

Moving on with South Korean financial support

Korea has settled an agreement with Ukraine to offer low-interest loans to help the reconstruction projects in Ukraine.

On the Ukrainian side, the document was signed by the First Deputy Prime Minister of Ukraine and Minister of Economy, Yulia Svyrydenko, and on the Korean side by the Ambassador of the Republic of Korea to Ukraine, Kim Hyung-tae. The signing ceremony was held in the presence of President of Ukraine Volodymyr Zelenskyy and Minister of Land, Infrastructure and Transport of Korea Won Hee-ryong who led a **30-members delegation of South Korean government and business officials to Ukraine**.



This **agreement sets the stage for discussions on specific projects and the terms of support. It grants Ukraine the opportunity to secure long-term, low-interest loans** from the Export-Import Bank of Korea through the Economic Cooperation Development Fund (EDCF). Initially, these loans can be utilized for equipment supply, with the possibility of extending to infrastructure loans for reconstruction from 2025 onward. The preliminary agreement between the two governments was signed in May this year at Asian Leadership Conference (mentioned in our Newsletter #3).

The initial pledge of support was announced by Korean President Yoon Suk Yeol during a session of the Group of 20 summit in New Delhi. **Korea aims to provide \$300 million in 2024 as humanitarian aid, followed by an additional \$2 billion in the form of long-term, low-interest loans through the EDCF**, starting in 2025.

According to Yonhap News Agency, it is the first time for the minister-led Korean business delegation to visit Ukraine for possible post-war rebuilding projects. The delegation was composed of the minister, officials from Korea Land & Housing Corp., Korea Railroad, Korea Airports Corp., Samsung C&T Corp., Hyundai Engineering & Construction Co., KT Corp., and CJ Logistics Corp.

Source: Ministry of Economy of Ukraine, Office of the President of Ukraine, Yonhap News Agency

Key developments for the Reconstruction of Ukraine

National Bank of Ukraine implemented a policy of managed flexibility of the exchange rate

The **National Bank of Ukraine** abandoned the fixed exchange rate of the hryvnia, and since October 3, **implemented a policy of managed flexibility of the exchange rate.**

The National Bank of Ukraine maintained a fixed exchange rate for the dollar from February 24, 2022. First, it was fixed at 29.25 UAH/\$ and 36.6 UAH/\$ from July 2022. When buying currency on the interbank foreign exchange market, banks could not deviate from these levels by more than 1%.

Under managed flexibility of the exchange rate, the National Bank will compensate for the structural currency deficit in the market and significantly smooth out exchange rate changes, minimizing the risks of sharp changes that could have undesirable effects on the financial market, economy, and citizens.

Taking this decision, the regulator considered several prerequisites that, allow abandoning the fixed exchange rate:

- Sufficiently high level of international reserves (exceeding \$40 billion USD as of September 1)
- Decreasing inflation (for the eight months of 2023, it slowed down from 26.6% to 8.6%)
- Stability of the currency market maintained during 2023
- Attractive rates for hryvnia instruments (the interest rate on term deposits in the system is close to 15%)
- Macroeconomic and financial stability.

In the context of the future return to the inflation targeting regime, the **floating exchange rate regime remains a common strategic goal of the NBU.**

Sources: National Bank of Ukraine.

eOselia (eHabitat) – affordable housing loans – completed its first year

The state program for affordable housing loans, **eOselia, has completed its first year, during which 3,641 Ukrainian families acquired homes under favorable conditions.**

Vice Prime Minister - Minister of Digital Transformation, Mykhailo Fedorov, highlighted the transformative impact of eOselia in Diia digital application on the mortgage application process. The program simplifies the application process through a few clicks in the app, enabling military personnel to apply from any location.

Notably, over 70% of those benefiting from preferential mortgage loans are the military families. Since the program's launch, banks have issued nearly **UAH 5.2 billion (~130 mln euros) in mortgage loans**, with significant activity in Kyiv and Kyivska oblast, as well as in Rivnenska, Volynska, and Chernihivska oblasts.

The recent expansion of the program's funding by the government aims to **assist around 10,000 families in 2023**. eOselia, which began on October 1, 2022, was initially available to military personnel, medical professionals, teachers, and researchers that work in the public sector. As of August 1, 2023, the program has been expanded to include veterans, war participants, individuals with war-related disabilities, family members of deceased military personnel, internally displaced persons, and all Ukrainians without their own housing.

Source: Ministry of Digital Transformation of Ukraine



Investment Map of Ukraine

Investment Map of Ukraine is an interactive platform created by European Business Association, Global Business for Ukraine and UkraineInvest in the beginning of 2023. It showcases a wide range of investment-ready projects across various sectors, thereby facilitating investment in Ukraine.

This tool helps potential investors learn about available investment opportunities in different regions of Ukraine, get details on their characteristics, and apply if interested. The description of each project contains information about its initiator, status, location, investment opportunity, the amount of necessary funding, goals, and timelines.

Additionally, it offers details about every Ukrainian region, including size, location, population, local taxes, educational establishments, available resources, and developed sectors.

Currently, there are 138 projects on the map covering various sectors. To learn more, visit the [Investment Map](#).

Source: EBA

Focus on the private sector in Ukraine

A Saint-Gobain started construction of dry building mixtures plant in the Ivano-Frankivsk region

The construction of the first dry building mixtures plant by the French company Saint-Gobain has commenced in the Tlumach district of the Ivano-Frankivsk region.

Kyrylo Pesenkov, the General Director of Saint-Gobain Construction Products Ukraine, informed Interfax-Ukraine, stating, "Today we have started construction. **The investment amounts to EUR 9 million, with a capacity of 60,000 tons of production per year.**" He noted that the company intends to reach its planned capacity by the end of 2024, **creating approximately 30 jobs in the initial phase of the plant's operation.**



As previously reported, Saint-Gobain planned the construction of the plant near the Khotymyr gypsum deposit in 2017, alongside a gypsum board production facility. The group aimed to invest up to EUR 65 million in a complex with two facilities. The gypsum quarry is operated by Saint-Gobain Construction Products Ukraine's subsidiary *Trojanski Gipsy*.

Saint-Gobain, founded in 1665, is one of Europe's largest manufacturers of building materials. The group operates in three sectors: innovative materials (including flat glass and glass for special applications), construction products (thermal and sound insulation materials, dry building mixtures and mortars, acoustic panels, gypsum mixtures, and gypsum board), and distribution of building materials.

The group's headquarters are located in Paris, uniting over 1,000 companies in 67 countries, with a workforce of over 170,000 people.

Sources: Information Agency Interfax Ukraine

Replay of the webinar on a case study

Discover our webinar with **Ignace Haertlé**, Managing Partner of construction and engineering companies **Watzenrode and Egis Ertle Engineering**, about "Reconstruction: from discussion to action" [by the link](#).

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[1] Where permitted under applicable country laws.