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Executive summary

- According to the Ukrstat, real GDP grew by 2.9% in 2024.
- According to the IER estimate, real GDP grew by only 1.1% yoy in the first quarter of 2025.
- Naftogaz Group has recovered half of the gas production lost due to enemy attacks in February.
- In March, Ukraine increased electricity imports by 11% to 272 thousand MWh.
- In the first quarter of 2025, Ukrainian ports handled 23 m t of cargo, 17% less than in 2024.
- Exports of goods in March increased by 11% yoy, and imports increased by 26% yoy.
- Ukraine received high international aid flows in March, primarily under the ERA mechanism.
- In March, inflation accelerated to 1.5% mom due to seasonal and one-time factors, but the increase in prices for most goods and services remained moderate.
- The NBU, as expected, left the rate at 15.5% per annum and lowered its forecast for GDP growth this year to 3.1%. That is consistent with the IER estimates.
- The hryvnia further strengthened against the US dollar but weakened against the euro.

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GDP and real sector: Real GDP in 2024 increased by 2.9%

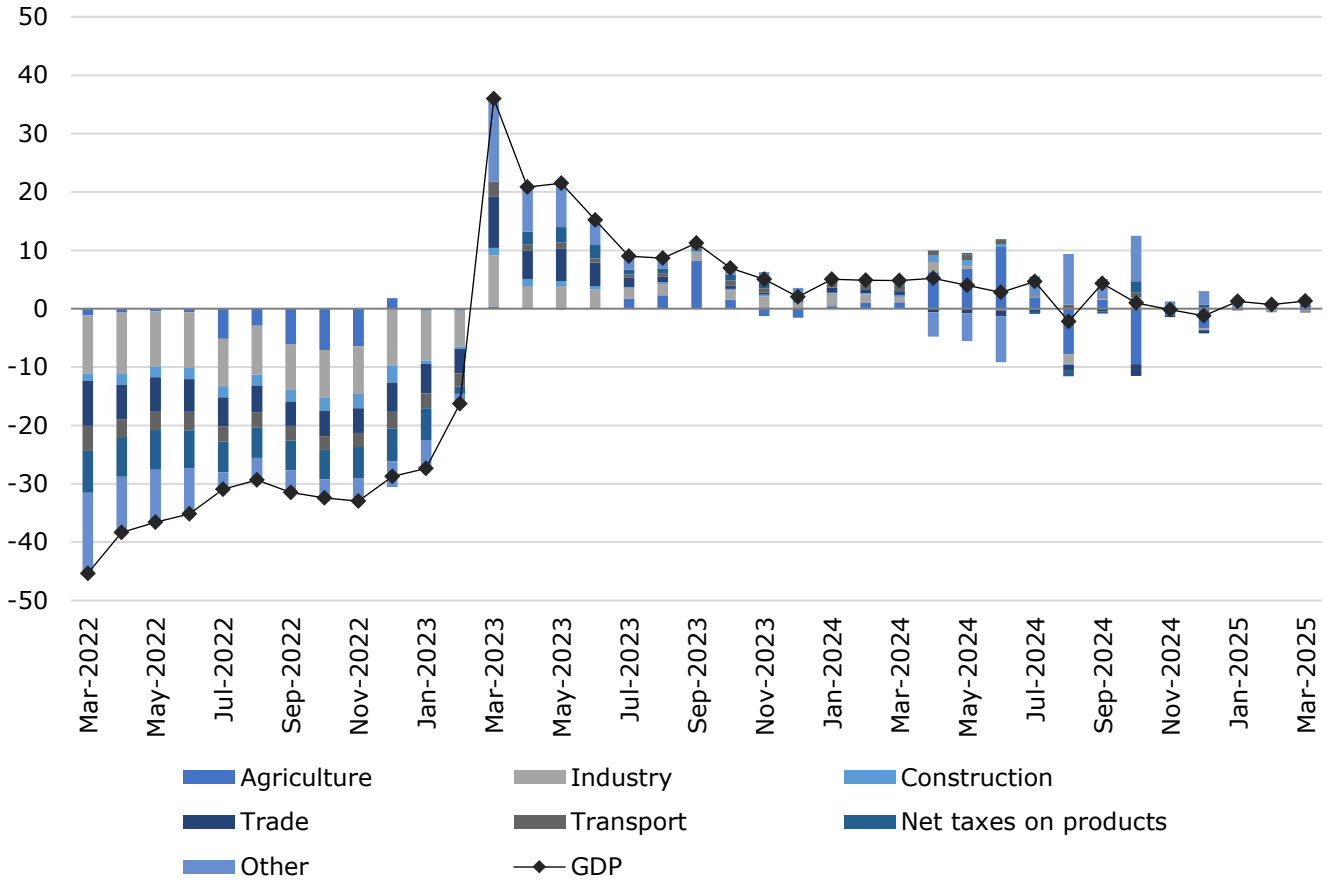
The Ukrstat published indicators of real GDP and its components for 2024. Real GDP increased by 2.9% after growing by 5.5% in 2023. On the demand side, private final consumption of households increased by 6.8% due to wage growth amid a tight labour market, as well as the timely payment of pensions (indexed) and social benefits. Gross fixed capital accumulation remained high and increased by 3.5% in 2024 after growing by 65.9% in 2023 thanks to military spending. Public consumption decreased in real terms by 4.5% yoy against the background of restrained budget revenues and the preservation of external financing at a level close to 2023, while the contribution of real net exports was negative at 0.9 p.p.

On the production side, real gross value added (GVA) declined in agriculture by 7.3% in 2024. The GVA in trade decreased due to a reduced role of intermediaries and a larger share of direct sales due to the war and the development of digital trade. At the same time, retail trade grew. Due to shelling and the destruction of electricity generation, the real GVA in the energy sector decreased. However, the state and the private sector were able to restore most of the lost capacities.

The indicators for GDP, industry, construction and several other areas of the economy published by the Ukrstat allowed the IER experts to finetune the estimate of real GDP growth in the first quarter of 2025. According to our estimates, real GDP grew by 1.2% yoy in January and 0.7% yoy in February. In March, better access to electricity and a gradual increase in demand were the main reasons for some improvement in the economic situation. According to the IER estimate, real GDP grew by 1.3% yoy in March. In the first quarter, real GDP is estimated to have grown by 1.1% yoy.

Real GVA in agriculture declined by about 3% yoy in March, which aligns with the revised estimate for February. That is mainly due to a reduction in household livestock production. As before, the advance of russian troops led to a decrease in production near the front line.

Figure 1: Contributions to real GDP, p.p.



Source: IER estimates

We estimate that real GVA in manufacturing increased by 2.5% yoy in March, slightly faster than the revised figure of 1.8% yoy in February. Moderate growth in domestic demand and export supplies supported the increase in production, although russian attacks continued to affect economic

activity negatively. In March, attacks on such large cities as Dnipro, Kryvyi Rih, and Kharkiv intensified.

In March, production in the extractive industry was estimated to decline by more than 3% yoy, primarily due to the temporary occupation by russian forces of several coal mines in the Donetsk region and attacks on gas production. The real GVA in the electricity sector decreased by almost 5% yoy due to russian attacks.

We revised trade growth estimates to 0.7% yoy in February and expect growth to remain close to 1.2% yoy in March. That will further reflect the trend towards an increase in the share of direct sales in trade, which leads to a decrease in wholesale turnover. According to our estimates, the real GVA in transport in March decreased by 6% yoy, which is close to the revised February estimate. A deeper slowdown in rail freight traffic due to cyberattacks offset slightly faster growth in other transportation segments. The impact of the termination of gas transit also remained.

Energy: Naftogaz is looking for money to import gas

Electricity. At the end of March, the second power unit of the nuclear power plant started repairs. Thus, only seven of the nine available power units at Ukrainian nuclear power plants currently operate in the system.

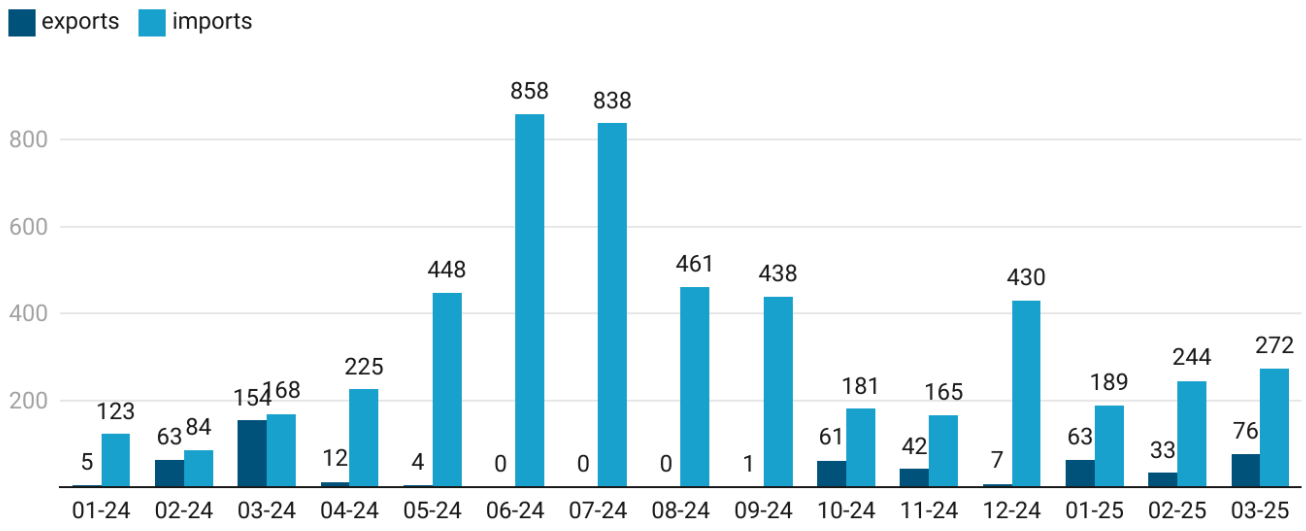
In March, nuclear power plants generated 52% of all electricity in the country, 32% from thermal generation, 9% from renewable energy sources and 6% from hydroelectric power plants.

In March, Ukraine increased electricity imports by 11% to 272 thous. MWh. Most electricity was supplied from Hungary (42%) and Slovakia (19%). Compared to March 2024, electricity imports increased by 1.6 times. March electricity exports also increased significantly compared to February, 2.3-fold to 76.3 thous. MWh.

Company ETG.UA has started constructing the first stage of an 18.6 MW wind farm in the Kirovohrad region as part of a project with a total capacity of 93 MW. The first stage includes the installation of three wind turbines. The total amount of funding for this stage is EUR 26 m.

According to the Ministry of Energy, since the beginning of 2025, 109 MW of distributed generation has been commissioned. The Ministry of Energy's priority is the development of wind energy and energy storage systems.

Figure 2: Export and import of electricity in 2024-2025, thousand MWh



Note: Figures are based on data on commercial electricity flows to/from Ukraine. Customs data may differ from these indicators
Source: DiXi Group

Gas. According to the Aggregated Gas Storage Inventory, as of mid-April, there was less than 5 bn cubic meters (bcm) of gas in underground storage facilities and only about 700 m cubic meters of active gas that can be physically lifted from storage facilities. A year ago, about 3.5 bcm of active gas remained in storage.

The Naftogaz Group has recovered half of the gas production lost due to enemy attacks in February. The company also announced that it is starting preparations for next winter with 16 gas piston units with a total capacity of more than 150 MW from Norway, a grant from Norway of EUR 140 m and an EBRD loan of EUR 270 m. To prepare for the next heating season, Ukraine must import about 4.5 bcm of gas, which could cost USD 1.5 to 2 bn.

Oil. On the night of March 17, the russian federation destroyed with drones an oil refinery owned by the Kharkiv investment and industrial group AES Group in Merefa. That is the fourth attack on the plant since February 2022. Before that, the enterprise was operating at only 10% of its capacity, but after the last attack, it was utterly destroyed.

Transport: Cyberattack on Ukrzaliznytsia

Sea transport. In the first quarter of 2025, Ukrainian ports handled 23 m t of cargo. Of these, ports near Odesa handled 20.7 m t (Pivdenny port 10.6 m tons, Chornomorsk port 6.6 m t, Odesa port 3.5 m t), and Danube ports (Izmail, Reni and Ust-Dunaisk) together handled more than 2.3 m t of cargo. There is a drop of 17% yoy: in the first quarter of 2024, 27.8 m t of cargo were handled.

The Chornomorsk-Varna ferry crossing, which was stopped at the beginning of a full-scale war, has partially resumed its work. The route became part of the new cargo ferry line Chornomorsk-Varna-Batumi, which is operated by the ferry Vilnius of the Ukrferry company. UZ Cargo Poland, a subsidiary of JSC Ukrzaliznytsia, is also involved in the project's implementation. Currently, transportation is carried out only in the direction of Georgia, with no return cargo flow.

Rail transport. On March 23, there was a powerful cyberattack on the information system of Ukrzaliznytsia. The company's passenger and cargo information services stopped working, and ticket sales were temporarily transferred to paper format through ticket offices. As of April 1, Ukrzaliznytsia reported that it had restored more than 90% of passenger online services, including ticket sales and the operation of the online board of arrival and departure of trains. The restoration of the information system for freight transportation is still ongoing.

Due to the cyberattack, there are also no statistics on rail freight traffic for March.

The Cabinet of Ministers of Ukraine has simplified the procedure for disposing of property for Ukrzaliznytsia. From now on, the company can independently, without the government's consent, decide on the alienation of property if its book value does not exceed UAH 500 m. That will allow Ukrzaliznytsia to start selling, in particular, the accumulated scrap metal and crushed stone.

Road transport. The agreement on the liberalization of freight transportation between Ukraine and the EU was automatically extended until the end of 2025. The condition for automatic prolongation was the absence of a negative impact on the parties to the agreement and the absence of violations.

At the beginning of April, a new automobile checkpoint, "Velyka Palagy - Nagyhodos", was opened on the border with Hungary. It is designed for passenger cars weighing up to 3.5 t and will work in the daytime.

On March 27, the Verkhovna Rada approved European integration draft law #4560, which allows the Ukrainian road transport services market to adapt to EU standards. It introduced changes to the licensing of carriers: to obtain a license and conduct activities, it will be necessary to have no accusations in serious criminal offences or have no penalties imposed, in particular, for significant violations of the road transportation law. An appropriate financial standing will be required to start and manage transportation companies. Confirmation of the professional competence of managers of transport companies will also be necessary, and all information about the road carrier will be accumulated in the Unified Complex of Road Transport Security Information Systems (EKIS).

The Cabinet of Ministers of Ukraine has approved a decision to allocate UAH 5.2 bn for the repair and restoration of roads in the frontline regions used for the needs of the Armed Forces of Ukraine. The funding was distributed in two directions: the State Agency for Reconstruction and Development of Infrastructure received more than UAH 2.6 bn, and regional state administrations received more than UAH 2.5 bn.

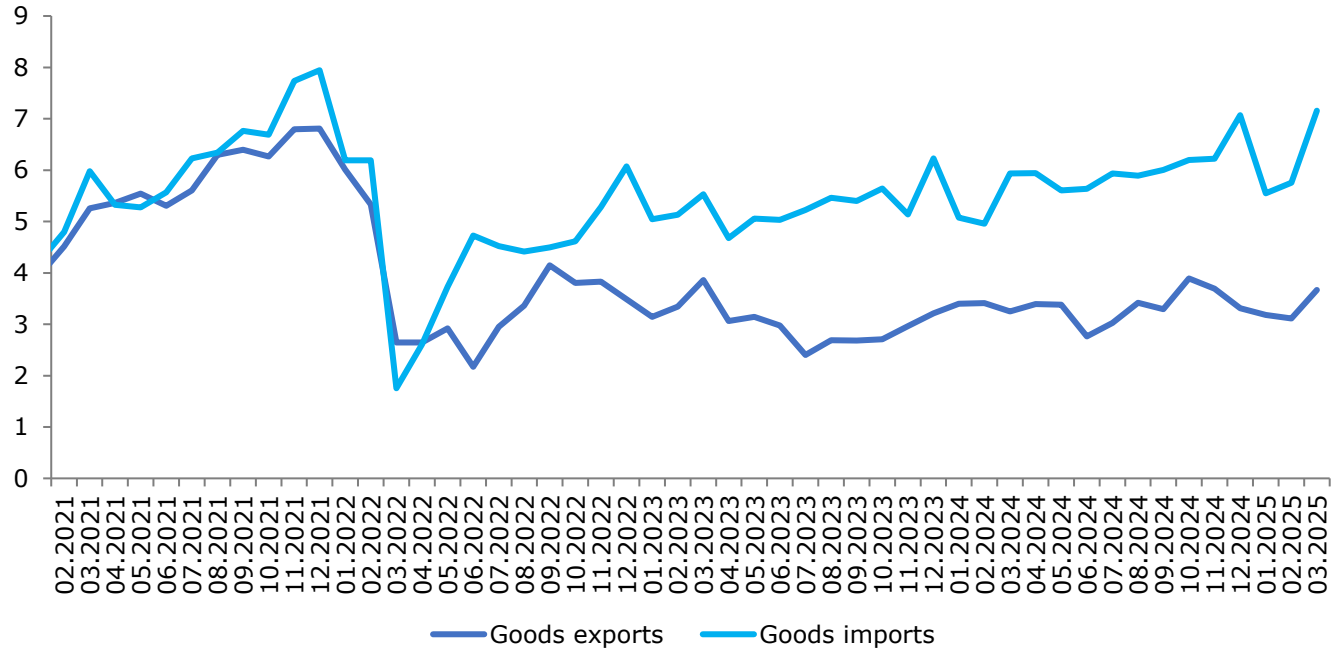
External trade: Trade turnover increased in March

Exports of goods in March were the largest in the last four months, increasing by 11% yoy to USD 3.66 bn. The growth concerned almost all major product groups. Agricultural exports increased by

5% yoy from a relatively high base and were also the highest in four months. Exports of corn and sunflower seeds oil increased in dollar terms compared to the previous year due to the convergence of export prices with world prices, although exports decreased in physical volumes. Exports of these goods also increased significantly compared to February. In addition, exports of soybeans, meat, and soybean oil remained high, considerably exceeding the previous year. At the same time, due to lower stocks, wheat export volume (in tonnes) fell by 45% yoy.

Exports of metallurgical products, primarily steel, reached USD 439 m and increased by 30% yoy. They were also the highest in six months. That was due to unexpectedly high pig iron exports, which exceeded 50% of monthly smelting volume and was the largest since 2021. Exports of mineral products fell by 19% yoy to USD 286 m but were higher than in February. Engineering products exports reached USD 315 m and increased by 93% yoy from a low base. That included a sharp increase in exports of wires and cables and electric heating devices. Exports of other goods increased compared to previous months and last year, particularly for wood products.

Figure 3: Trade in goods of Ukraine, USD bn



Source: State Customs Service of Ukraine

Imports of goods reached USD 7.15 bn and increased by 26% yoy. Imports exceeded peak volumes in December due to a sharp growth in energy imports and a seasonal expansion in imports of chemical products. Imports of machinery and equipment grew by 33% yoy to USD 2.49 bn. Imports of energy equipment decreased to USD 271 m in March compared to USD 351 m in February but remained much higher than USD 103 m in March 2024. Imports of cars and drones have also increased.

Energy imports in March increased by 62% yoy to USD 1.19 bn, including an expansion in gas released by customs by almost 6.9 times in dollar terms. That reflected the shortage of gas in storage amid Russian attacks on gas production in Ukraine. At the same time, the average import price was slightly lower than in previous months. Imports of coal and electricity also grew.

Imports of other groups of goods expanded as well. Imports of chemical products increased by 4% yoy: higher imports of plant protection products and complex fertilizers compensated for lower imports of medicines. Food imports increased by 15% yoy, and imports of other industrial goods by 11% yoy.

Fiscal Policy: High International Aid Inflows

According to preliminary data from the Ministry of Finance, state fiscal revenues increased to UAH 389 bn in March. The main reasons were the receipt of corporate profit tax (CPT) and a grant paid through the World Bank.

The revenues of the general fund almost doubled compared to last year to UAH 321 bn. In particular, the CPT revenues increased by 43% yoy and amounted to UAH 86 bn, of which the banking sector provided UAH 42 bn. That reflected a later than last year's CPT payment based on the fourth quarter and the full-year results. In general, in the first quarter of 2025, the CPT revenues grew by only 2.8% yoy.

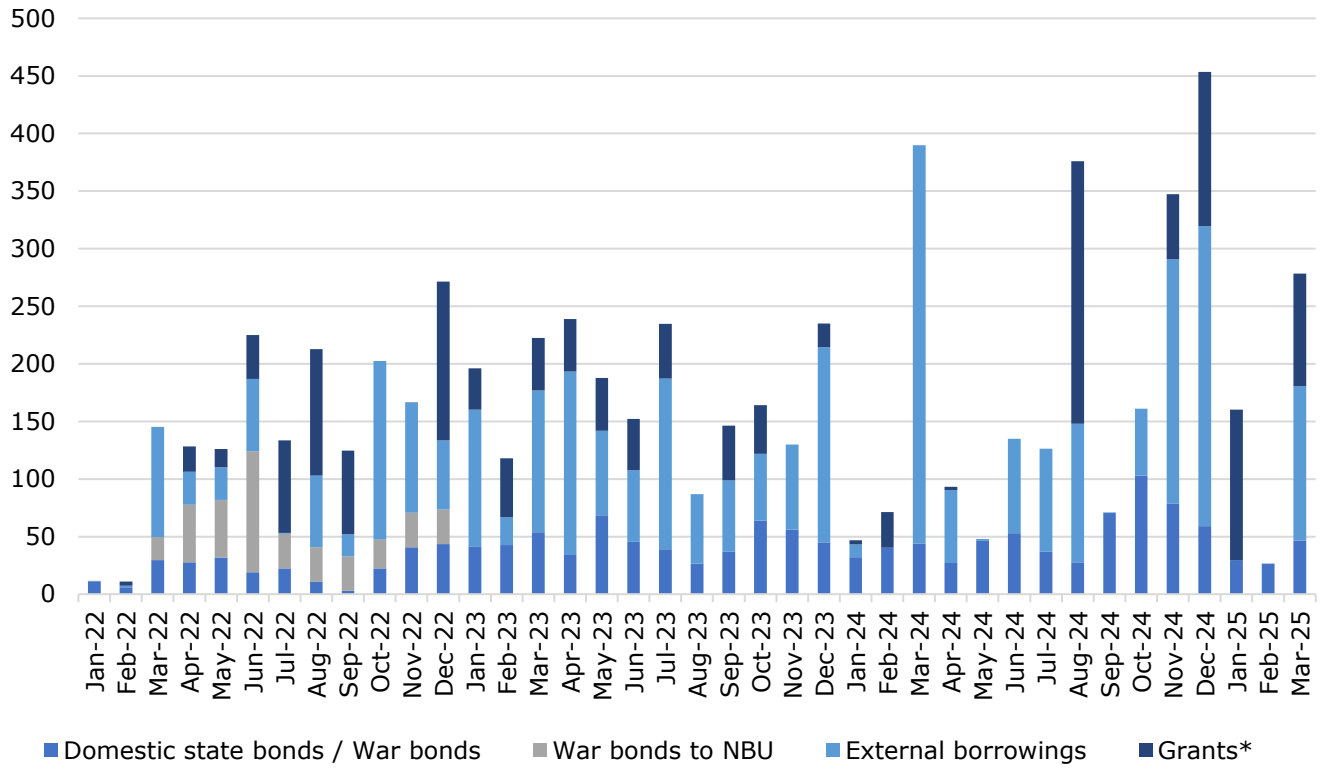
Personal income tax revenues increased by 52% yoy due to higher military tax and increased wages (minimum and average). Average wages have been proliferating against the backdrop of the labour deficit. That is the most significant obstacle to business activities, according to the IER monthly business survey. At the same time, official wages are likely growing due to a decrease in the share of informally paid wages. A policy on employee reservations could facilitate that.

Gross domestic VAT revenues increased by 17.5% yoy and amounted to UAH 39.9 bn, but remained close to the average over the past six months. VAT refunds constituted UAH 13.8 bn, lower than the average in the second half 2024. VAT on imports grew by 40% yoy to UAH 44.9 bn due to an expansion of imports subject to taxation (including electricity).

The revenues of the special fund amounted to UAH 68.4 bn (30% less than in February 2025 and 14% less than in March 2024). Most of these funds came in the form of military aid.

The revenue plan administered by the State Tax Service was exceeded by 9.6% (UAH 14 bn). At the same time, the revenue indicators administered by the State Customs Service were exceeded by 0.5% (UAH 0.3 bn).

Figure 4: Funding and grants received by the state budget, UAH bn



Note: *Grants are part of fiscal revenues, accounted for under code 42000000 "Official transfers from the EU, foreign governments, international organizations, donor institutions"
External borrowings in December 2024 and January 2025 include USD 1 bn and EUR 3 bn, respectively, received from the US and the EU under the ERA mechanism.
Source: Ministry of Finance

At the end of March, the IMF Executive Board approved the seventh revision of the program, although Ukraine has not fulfilled all structural beacons (their implementation has been postponed). The IMF's positive decision was facilitated by Ukraine's implementation of the previous structural beacon, namely the signing of amendments to the Tax Code to increase excise rates (the draft law has been waiting for signature for more than three months). The IMF also added several additional beacons, which, in particular, provide for the continuation of the reform of the public finance management system. The tranche from the IMF amounted to USD 0.4 bn instead of the previously

planned USD 0.9 bn at the request of the Ukrainian government, probably for liquidity reasons. That will increase tranches from the IMF in 2026 against higher repayment and servicing of previously taken loans.

Ukraine received further funding under the Group of Seven ERA program:

- On March 7, Ukraine received GBP 752 m from the UK out of the planned GBP 2.26 bn as a military loan to a special budget fund.
- On March 13, Ukraine received CAD 2.5 bn (~ USD 1.7 bn in equivalent) from Canada.
- On March 20, the EU transferred EUR 1 bn to Ukraine.

The placement of domestic government bonds grew to UAH 46.6 bn in March, of which 36% accounted for foreign currency bonds. At the same time, the weighted average yield on government bonds increased in response to the increase in the NBU's key policy rate.

On April 1, Ukraine received EUR 3.5 bn from the EU under the Ukraine Facility program thanks to implementing the indicators of the fourth quarter of 2024. At the same time, Ukraine did not meet all the indicators required for financing in time by the results of the first quarter of 2025. These indicators must be fulfilled in April to avoid an excessive shift in the financing schedule.

Currently, donors funding, including the ERA program, due to in 2025 is expected to meet the needs of this year but only part of the 2026 needs. With this in mind, the IMF program now stipulates that the government will leave part of the funds received for 2026 and also provides for the possibility of advance financing of expenditures for 2026. The availability of funding for 2027 is not yet known, as the IMF Program contains an external financing scenario only until the first quarter of 2027.

Currently, funding for 2026 is insufficient, even assuming that the active stage of the war will end by the end of 2025. Even if the active phase of the war ends, Ukraine will need funds to finance military procurement. Demobilization will take place gradually, so the reduction in funding for military payments will also be gradual. Moreover, there will still be a need to finance transitional payments, rehabilitation programs, training and retraining of military personnel. Other expenditure items will be difficult to limit or reduce.

Therefore, the need to find additional sources of funding remains urgent. That is also important, given Ukraine's desire to join the EU in 2030. Accordingly, promoting funding for Ukraine in the EU framework budget for 2028-2034 is essential.

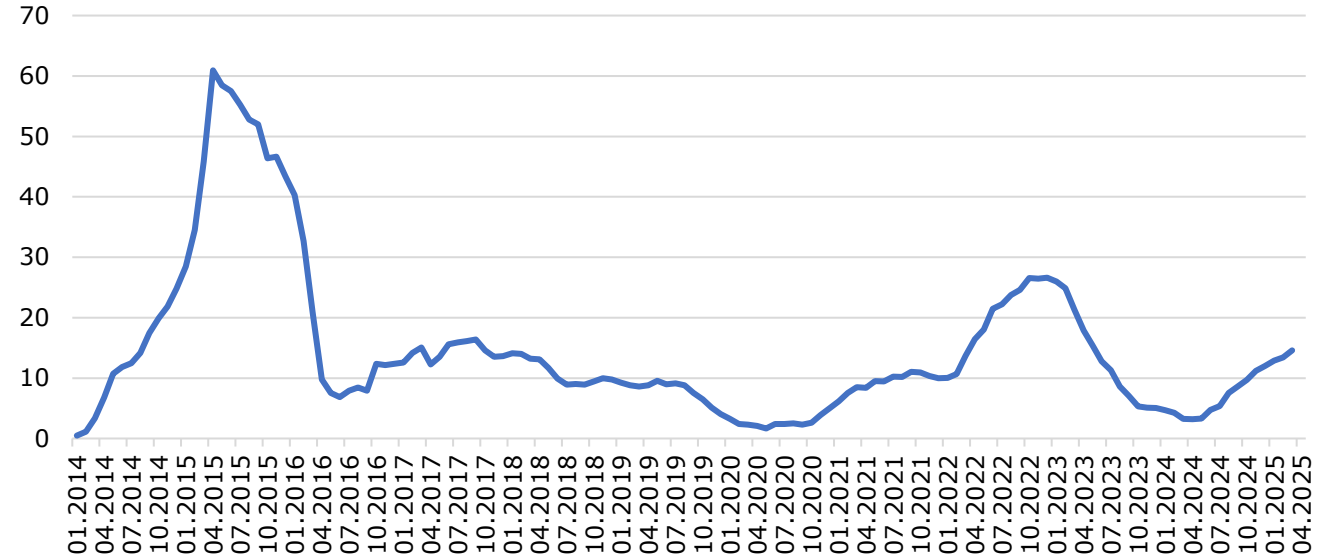
Inflation: Consumer inflation reached 14.6% yoy

In March, consumer inflation accelerated again and amounted to 14.6% yoy compared to 13.4% in February. One of the main drivers of this acceleration was the increase in average egg prices by 45% yoy compared to last year's low base, while in February, prices were close to last year's (2% yoy higher). However, inflationary pressures were also supported by traditional factors, such as rising labour costs, higher costs for stable energy supplies, a low harvest last year, and the convergence of domestic prices for some agricultural products with world prices (due to the removal of export barriers that previously kept domestic prices at a lower level).

In monthly terms, in March, price growth accelerated to 1.5% mom. However, the price increase seems to have been caused by one-off and seasonal factors, and for most of the consumer basket, price changes remained moderate, as in February. That gives grounds for cautious optimism about a slowdown in inflation in the coming months.

The main factors behind the acceleration of monthly inflation in March were higher egg prices and seasonal increases in the prices of fruits, clothes and shoes. Egg prices increased by 19% mom amid growing domestic demand and rising exports but remained lower than in December. According to the methodology, the State Statistics Service reports an increase in prices for clothes and footwear every time a new season begins. Then, it shows the usual price decline later in the season. Also, despite the government's statements about the expected price decrease for medicines in March, the State Statistics Service reported a further increase in prices for most medicines by 2-5% mom. The average increase in prices for other components of the consumer basket, as in February, did not exceed 1% yom.

Figure 5: Consumer price inflation, % yoy



Source: State Statistics Service

Monetary Policy and Exchange Rate: Hryvnia Continues to Strengthen Amid Higher Interest Rates

Monetary policy. In April, the NBU left the key policy rate at 15.5% per annum. The NBU noted the persistence of inflation risks but also mentioned the signs of a decrease in inflationary pressures in recent months (as we stated above). In general, the NBU maintained its position that the current rate level is sufficient to slow down inflation.

The NBU also promised to reduce the key policy rate after inflation returns to a single-digit level and did not rule out a rate increase if inflation is higher than forecasted. In general, it seems that this approach will be sufficient to slow down inflation in the absence of surprises.

The NBU made its decisions based on the updated macroeconomic forecast. The economic growth forecast has deteriorated slightly: this year's forecast for real GDP growth has decreased from 3.6% to 3.1%, and in 2026, from 4.0% to 3.7%. As a result, the NBU's forecasts have become closer to the IER's estimates. The changes in the NBU's forecast reflected the effect of recent Russian attacks and the impact of US economic policy on the global economy. However, according to the central bank, this impact will be relatively moderate and, depending on the future actions of the United States and other countries, may create opportunities for Ukraine.

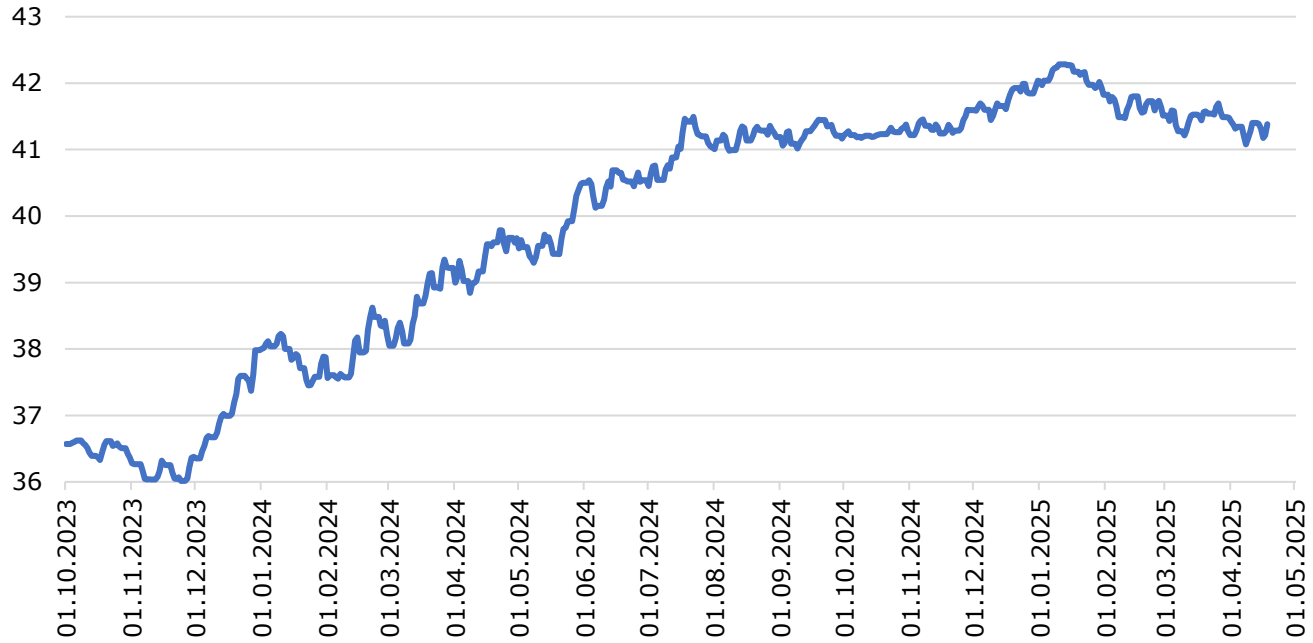
The inflation forecast of 8.7% yoy in December this year and 5.0% yoy in December 2026 is almost unchanged from previous estimates (8.4% yoy and 5.0% yoy). According to the NBU, the weakening of the dollar against the euro and, thus, the rise in the price of part of Ukraine's imports will be compensated by lower prices for several raw materials.

Exchange rate. The hryvnia continued appreciation vs the US dollar, which began in mid-January, and in recent weeks has remained in the range of 41.0-41.4 UAH per USD. The appreciation of the hryvnia against the dollar was supported by the weakening of the dollar against the euro caused by the US economic policy. As a result, the hryvnia exchange rate against the euro in April updated to the maximum of September 2024 and, on April 15, exceeded 47 UAH per EUR. According to the NBU, in the fourth quarter of 2024, exporters of goods and services received 64% of revenues in dollars, and only 33% in euros, but 51% of payments for imports were in euros and 48% in dollars. The rest of the settlements were made in hryvnia and other currencies. The dollar remains the primary currency for NBU interventions and cash currency exchange.

Accordingly, strengthening the hryvnia against the dollar significantly reduced the net demand for cash foreign currency. The NBU reduced interventions for the four weeks ended April 20 to approximately USD 2.2 bn. The NBU's international reserves at the end of March amounted to USD 42.4 bn from USD 43.8 bn at the beginning of the year. The government attracted USD 9.1 bn from donors, excluding USD 970 m in earmarked funds from Great Britain for purchasing weapons not included in international reserves. The government also spent more than USD 1.7 bn on external debt payments, including debt to the IMF. In addition, a net of USD 410 m was spent on servicing

foreign currency government bonds net of funds raised. According to the NBU, international reserves cover more than five months of imports of goods and services.

Figure 6: Official exchange rate of hryvnia to US dollar (UAH per USD)



Note: The exchange rate values in the figure start from UAH 36 per USD
Source: NBU

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