INSTITUTE
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AND POLICY CONSULTING

Monthly Economic Monitoring of Ukraine

No. 242, March 2025

Resume

- Real GDP growth slowed to 0.5% yoy in February, according to the IER, as Russian shelling and increased uncertainty led to a decline in several industries.
- Gas imports increased 12 times to 512 m cubic m in February compared to January.
- In February, Ukraine increased electricity imports by almost 30% mom to 244 thousand MWh.
- In February, the cargo turnover of the Greater Odesa ports amounted to 8 m tons, 21% more than in January. Rail traffic decreased by 12% mom.
- Exports of goods fell by 10% yoy in February, while imports increased by 15% yoy.
- In February, Ukraine did not receive funds from external partners. However, funding has already begun to arrive in March.
- Uncertainty increased about USA assistance to Ukraine in February and March.
- In February, monthly inflation was below 1% yoy for the first time in six months, suggesting a slight easing of inflationary pressures.
- In March, the NBU raised the rate to 15.5% per annum, but it may stop there.
- The hryvnia strengthened against the dollar in the first months of the year against decreased demand for cash dollars.

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GDP and real sector: Significant slowdown in real GDP growth in February

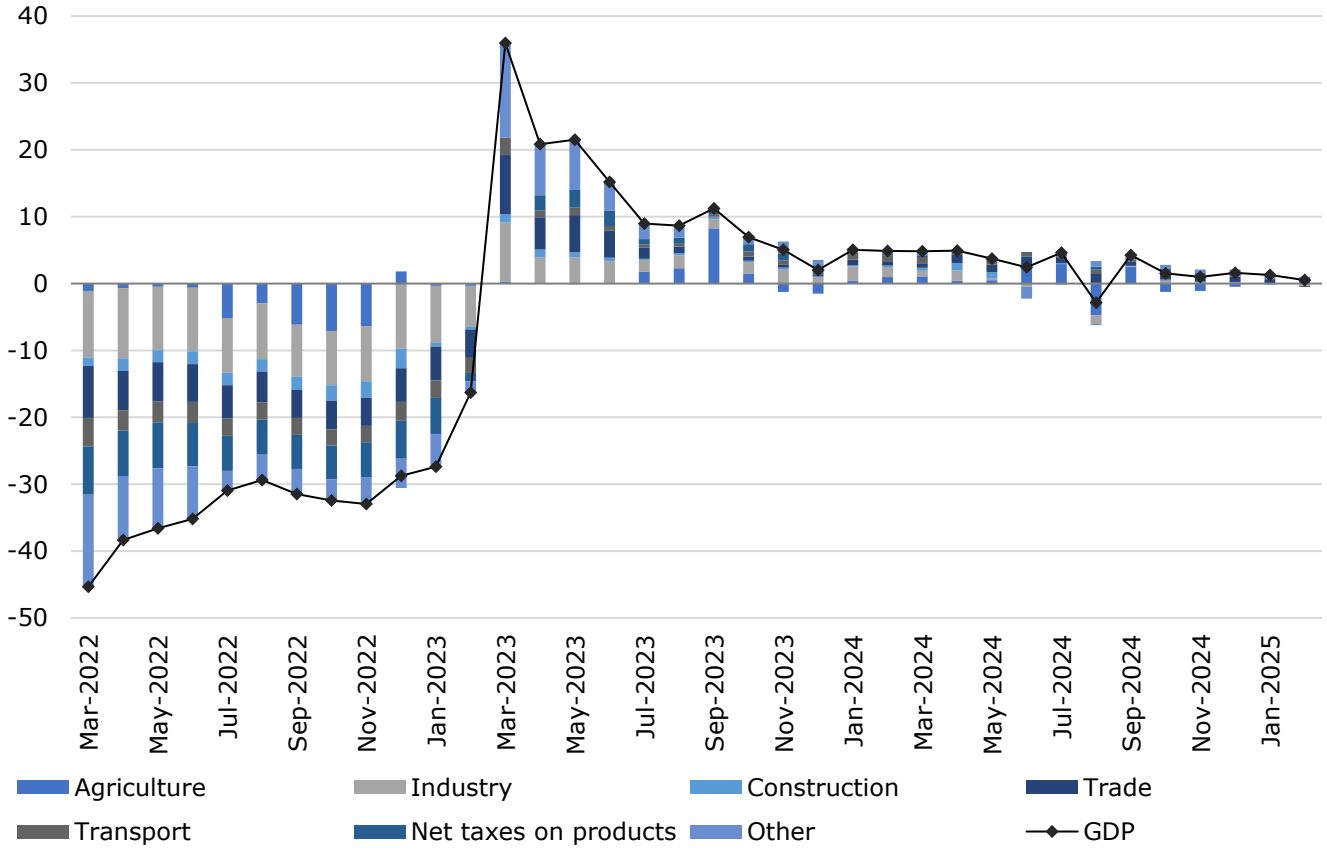
Given the new data and somewhat improved methodology, we revised our estimate of real GDP growth in January to 1.3% yoy. The real GDP growth rate in February was estimated to have slowed to 0.5% yoy, as Russian shelling and increased uncertainty led to a decline in several industries, offsetting the recovery in other sectors of the economy. Thus, in particular, due to the shelling of ports, the rate of decline in real gross value added (GVA) in transport increased from almost 1% yoy in January (due to the lack of gas transit) to 4.5% yoy in February. As a result, the growth rate in trade slowed down to 3.5% yoy.

The shelling of the gas network (production and distribution) in the Kharkiv and Poltava regions, both by Naftogaz and private owners, worsened the situation in the mining industry, which had previously reduced production due to the temporary occupation of several coal mines in the Donetsk region. As a result, the real GVA in the industry decreased by more than 5% yoy.

Also, in the manufacturing industry, real GDP growth was restrained by the Russian shelling of industrial facilities and infrastructure and planned power outages. According to estimates, it was 2.5% yoy in February. In particular, the results of the business survey, conducted monthly by the IER, showed that the key obstacles to the industrial enterprises' activities in February were the lack of labour, rising prices for factors of production, and the danger of working. At the same time, despite planned outages, only 18% of respondents called access to electricity an obstacle. That is probably a consequence of business adaptation, the use of own electricity generation capacities and its import. According to estimates, the drop in GVA in the electric power industry was about 5% yoy.

Real GVA in agriculture decreased by 1.1% yoy. That reflects a drop in livestock production, as agricultural performance in the year's first five months does not include crop production.

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



Source: IER estimates

Energy: Russia attacks Ukrainian gas production

Electricity. Prime Minister of Ukraine Denys Shmyhal said that since the beginning of the full-scale invasion of the Russian Federation, Ukraine has lost 10 GW of generation due to enemy attacks.

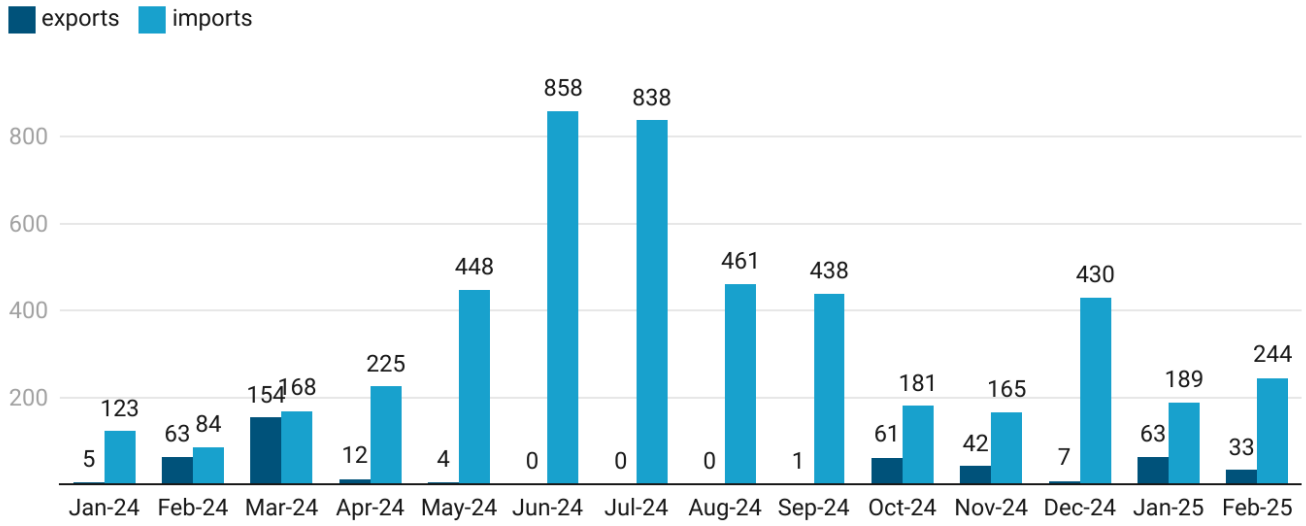
Due to Russia's ongoing attacks on Ukraine's energy infrastructure, power outages for businesses continue. There was damage to energy facilities in Zaporizhzhia, Odesa and Dnipropetrovsk regions. Ukrenergo warned of a possible increase in outages due to attacks and scheduled repairs of power units at nuclear power plants. In addition, due to the snowless winter, significantly less water was accumulated at hydroelectric power plants, affecting their operation.

In February, Ukraine increased electricity imports by almost 30% mom to 244 thousand MWh. Most electricity was supplied from Hungary (35%) and Slovakia (30%). Compared to February 2024, electricity imports increased by 2.9 times.

The situation in the electricity market is complex with mutual indebtedness of market participants: Guaranteed Buyer owes producers from renewable energy sources (RES) UAH 24.8 bn, Ukrenergo owes UAH 19.4 bn for the RES service, Ukrenergo owes UAH 18.4 bn to participants in the balancing market, and Ukrenergo owes UAH 3.4 bn to universal service providers. At the same time, the debt to Ukrenergo reached more than UAH 36 bn.

The Energy Support Fund of Ukraine lost USD 75 m, allocated as a grant from the United States Agency for International Development (USAID). The agency terminated the grant agreement at the end of February due to the suspension of the program by the US State Department. As of February 24, 2025, the Fund has attracted more than EUR 1.11 bn from donors; about 91% of the amount has already been wired to the Fund. The United States accounted for 6.7% of the total contributions. The largest donors to the Fund are Germany, the EU and Sweden. Since April 2022, the Energy Support Fund has helped restore 2 GW of generating capacity and financed the purchase of generators, turbines, control systems, high-voltage equipment and other critical components.

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: ExPro Consulting

Gas. In early March, Russia attacked DTEK's gas production facilities in the Poltava region, which stopped their work, as well as one of the gas pipeline nodes near Ternopil. There were also several attacks in February on gas fields in the Poltava and Kharkiv regions. Strikes on gas production intensified after the termination of the transit of Russian gas through Ukrainian territory to Slovakia. According to Reuters, gas production within the country decreased by 40% after this year's missile strikes on the industry, which forced Ukraine to increase gas imports significantly. Ukraine plans to import up to 800 m cubic m of gas in February and March 2025.

According to ExPro, Ukraine imported 511.8 m cubic m of natural gas in February, the highest monthly volume in 1.5 years since September 2023. Compared to January, the volume of gas imports increased 12 times. Most of the gas was imported from Slovakia – 46% of all imports. In addition, 43% were imported from Hungary and 11% from Poland.

NJSC Naftogaz of Ukraine and the Polish energy company ORLEN signed a memorandum of strategic cooperation in the supply of liquefied natural gas (LNG) and a contract to supply about 100 m cubic m of gas. The gas will come from a batch of liquefied natural gas delivered to the terminal in Klaipeda

(Lithuania). The gas will then be transported via the GIPL gas pipeline connecting Lithuania and Poland and then through Polish territory to an interconnector on the Ukrainian border in Drozdovychi, where Naftogaz will receive it.

Norway has allocated about EUR 380 m to support Ukraine's energy security — gas purchases, restoration of power grids, emergency generators and nuclear safety. The funds will come through the European Bank for Reconstruction and Development (EBRD).

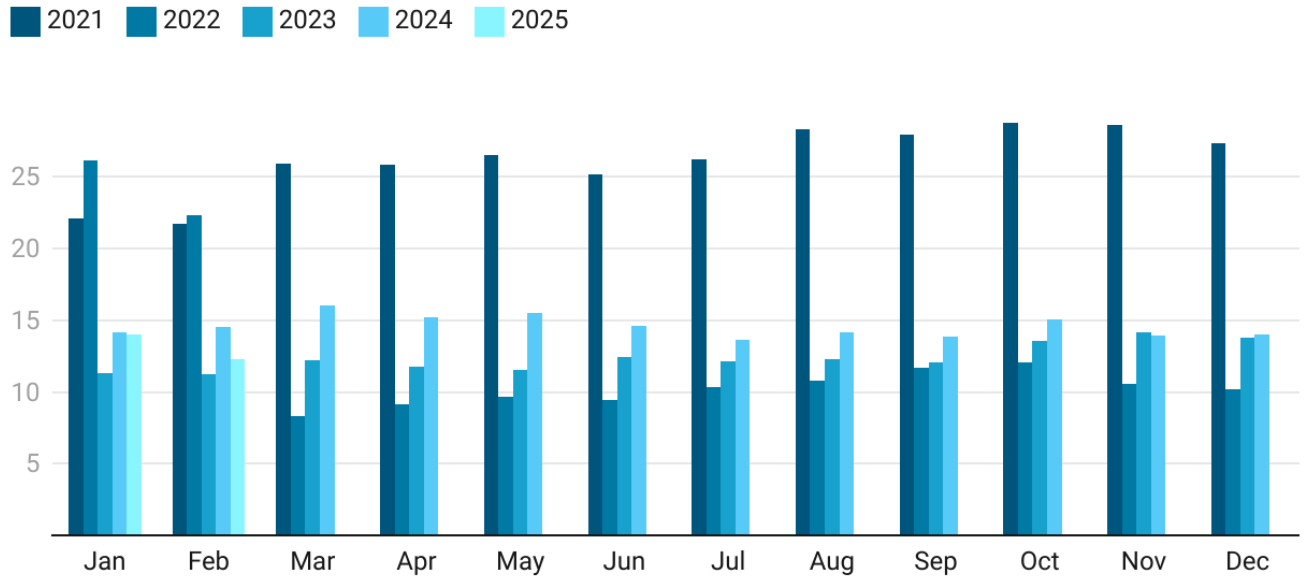
Transport: eCherga is introduced for trucks weighing more than 3.5 tons

Sea transport. Russia continues to attack the port infrastructure of Ukraine. On the evening of March 11, Russia attacked the civilian ship MJ PINA with wheat for Algeria in the port of Odesa. As a result of the strike, four Syrian citizens were killed. In February, the cargo turnover of the ports of Greater Odesa amounted to 8 m tons (an increase of 21% mom), of which 5.2 m tons were agricultural products.

More than 4 thousand vessels have already passed through the Ukrainian sea corridor. Exports of Ukrainian agricultural products through the sea corridor reached 70 m tons, and another 36 m tons of cargo were non-food products (in particular, ores and metallurgical products).

Rail transport. In February, 12.3 m tons of cargo were transported by rail, 12% less than in January and 16% less than in February 2024. Of these, 4.2 m tons were transported to ports and 2 m tons of cargo to the western border. Ores (43%), grains (37%), and ferrous metals (6%) account for the largest shares in transportation.

Figure 3: Rail transportation of goods, million tons



Source: Ukrzaliznytsia

According to Ukrzaliznytsia's preliminary expectations for 2025, if the current tariffs are maintained, the company may receive UAH 22 bn in losses from passenger transportation, and the profitability of freight transportation will decrease to UAH 5-6 bn, not covering the loss of passenger transportation. That is why Ukrzaliznytsia proposes to increase tariffs for freight transportation by 37%, which is actively opposed by businesses.

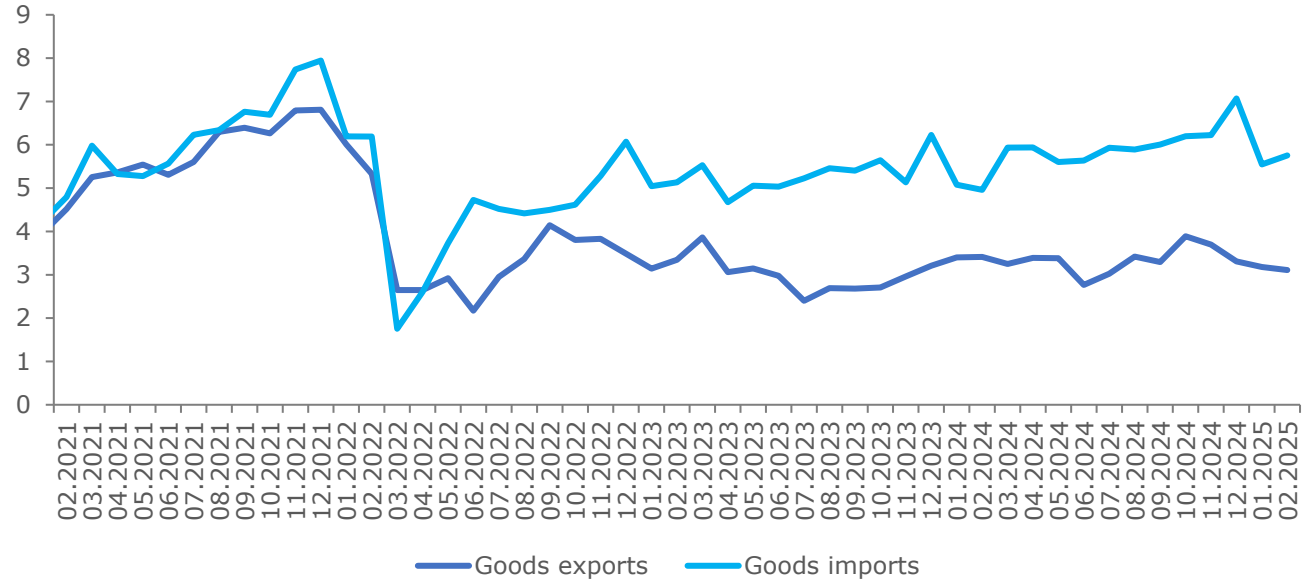
Road transport. From March 2025, all licensed transport carriers using trucks weighing 3.5 tons or more are required to use the eCherga (electronic queue) system to cross the border. Previously, it was mandatory only for vehicles over 7.5 tons. The introduction will take place in stages: from March 11 at the checkpoint with Slovakia Uzhhorod – Vysnie Nemecke and one of the crossings with Poland (Smilnytsia - Krostsenko), from March 18 - in key Polish directions (Krakivets - Korchowa, Shehyni – Medyka, Rava-Ruska – Hrebenne), and from March 25 – on the Hungarian border (Chop – Záhony). There will be a separation of queues for empty and loaded trucks with a mechanism for automatic cancellation of registration in case of discrepancy with customs status. The eCherga system covers 23 checkpoints, and during its experimental implementation, more than

725 thousand trucks passed through it. These changes are expected to reduce congestion, improve the predictability of border crossings, and speed up logistics.

External trade: Exports of goods decreased in February

Exports of goods in February remained close to January but fell by 10% yoy to USD 3.11 bn. The decline compared to the previous year primarily reflected lower stocks of agricultural goods. Accordingly, agricultural exports fell by 16% yoy but remained close to the level of January. Exports of agricultural products supported an unexpected increase in wheat, soybeans and soybean oil shipments compared to January. For wheat, exports were the highest in three months, for soybeans in 12 months, and for soybean oil exports were likely a record (at least since 2016) and likely the third or fourth largest in the world after Argentina, Brazil, and possibly the US. That is explained by the partial transition of oilseeds to soybean processing to replace sunflower seeds, the stocks of which are low. Exports of poultry meat also increased and were the largest since the beginning of the full-scale war in terms of physical volumes. Compared to last year, higher export prices for the main types of agricultural products (including due to the shrunk gap between export prices on Ukraine's border and world prices) supported nominal exports.

Figure 4: Trade in goods of Ukraine, billion dollars USA



Source: State Customs Service of Ukraine

Exports of metal products slightly decreased to USD 301 m from USD 328 m in January, but in annual terms, it fell by 18% yoy. Compared to January, metal manufacturers increased exports of semi-finished products and bars by reducing rolled products and suspending pig iron exports. Exports of mineral products decreased to USD 242 m or by 20% yoy. Exports of engineering products remained close to January and amounted to USD 287 m, but increased by 68% yoy from a low base. Exports of other goods increased compared to January and the last year, particularly due to wood products.

Imports of goods in February amounted to USD 5.75 bn and increased by 15% yoy. Imports of machinery and equipment amounted to USD 2.14 bn, close to January and 28% yoy higher than the last year. Imports of energy equipment decreased to USD 350 m in February compared to USD 431 m in January, possibly against the suspension of US aid. At the same time, imports of solar panels began to resume.

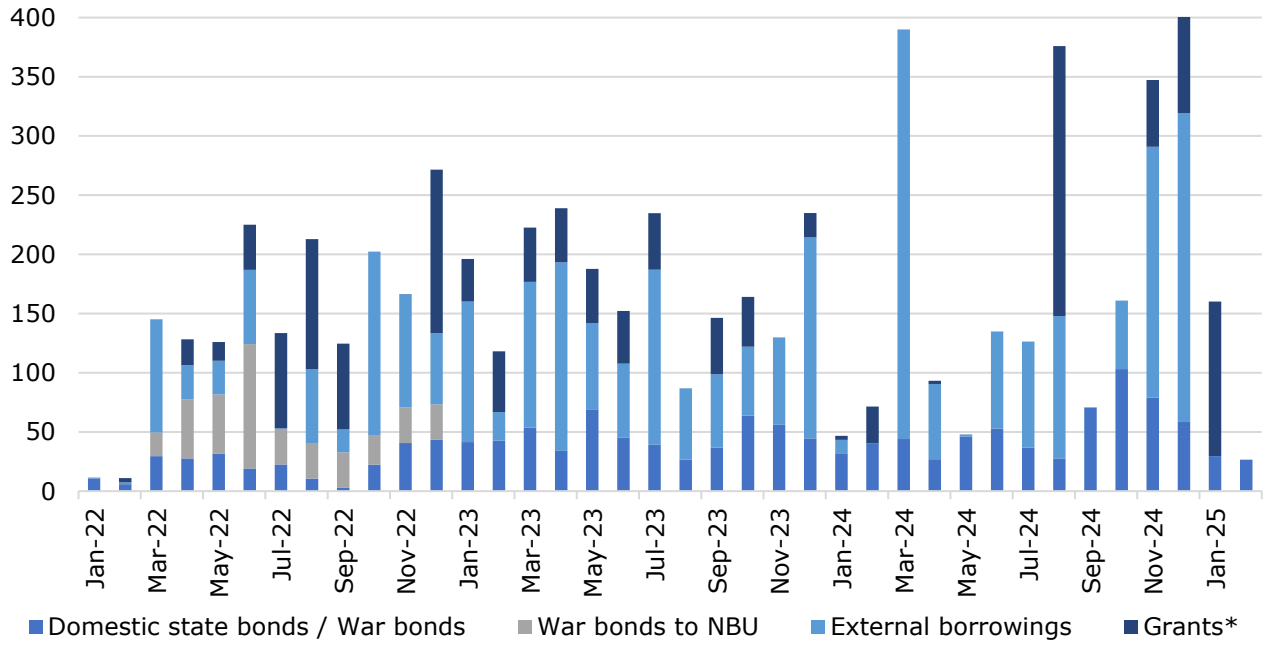
Energy imports in February fell by 11% yoy to USD 625 m due to a high statistical base and a decrease in the average price and physical volumes of imports of petroleum products. At the same time, imports of coal, coke and electricity increased sharply. In February, imports of agricultural products, including sunflower seeds, increased by 28% yoy, while imports of chemical products, including fertilizers and other goods, grew by 11% yoy.

Fiscal policy: There was no external financing in February

In February, Ukraine did not receive funds from external partners. However, funding has already begun to arrive in March. In particular, in the first half of March, Ukraine received GBP 0.8 bn from the United Kingdom and 2.5 bn Canadian dollars from Canada under the ERA (Extraordinary Revenue Acceleration) assistance mechanism. Also, in March, EUR 3.5 bn should be received from the EU under the Ukraine Facility, as Ukraine has fulfilled all the indicators of Ukraine's Plan for the fourth quarter of 2024.

In February, the experts-level decision was achieved on the seventh revision of the IMF program, although there are problems with implementing structural beacons. Notably, the Parliament could not cancel Lozovyi's amendments, and therefore, most likely, that beacon will be postponed to a later date. At the same time, another beacon has almost been completed, albeit belatedly: the Parliament has passed a law on the Supreme Administrative Court. However, the law still needs to be signed by the President. That is a prerequisite for scheduling a meeting of the IMF Executive Board. Another prerequisite for approving the seventh revision is probably the signing by the President of a draft law on raising excise taxes (the draft law was adopted in December 2024). When Ukraine fulfils the prerequisites, the IMF Executive Board is expected to decide on the revision and provide Ukraine with USD 0.4 bn, half as much as previously planned. As explained by the NBU, the amount was reduced at the request of the Ukrainian Government because there are sufficient revenues from other sources. In general, such a request aligns with liquidity management plans: the Government now has enough foreign exchange liquidity, cheaper than IMF loans. At the same time, the IMF program is currently structured so that in 2026-2027, Ukraine begins to receive less from the IMF than it pays in interest and repayment of previously received loans.

Figure 5: Funding and grants received by the state budget, UAH bn



Note: * Grants are part of budget 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

In February, the Ministry of Finance slightly reduced the gross issue of government bonds to UAH 26.5 bn against an increase in the weighted average rate associated with an increase in the key policy rate by the National Bank. At the same time, as part of liquidity management, the Ministry of Finance, for the first time, held an auction for the exchange of government bonds (switch auction) on the Bloomberg auction platform, replacing part of the government bonds maturing in 2025 with 2027 government bonds.

State fiscal revenues decreased slightly compared to January. They amounted to UAH 253 bn (compared to UAH 283 bn in January). Of these, UAH 120 bn (UAH 156 bn in January) were revenues

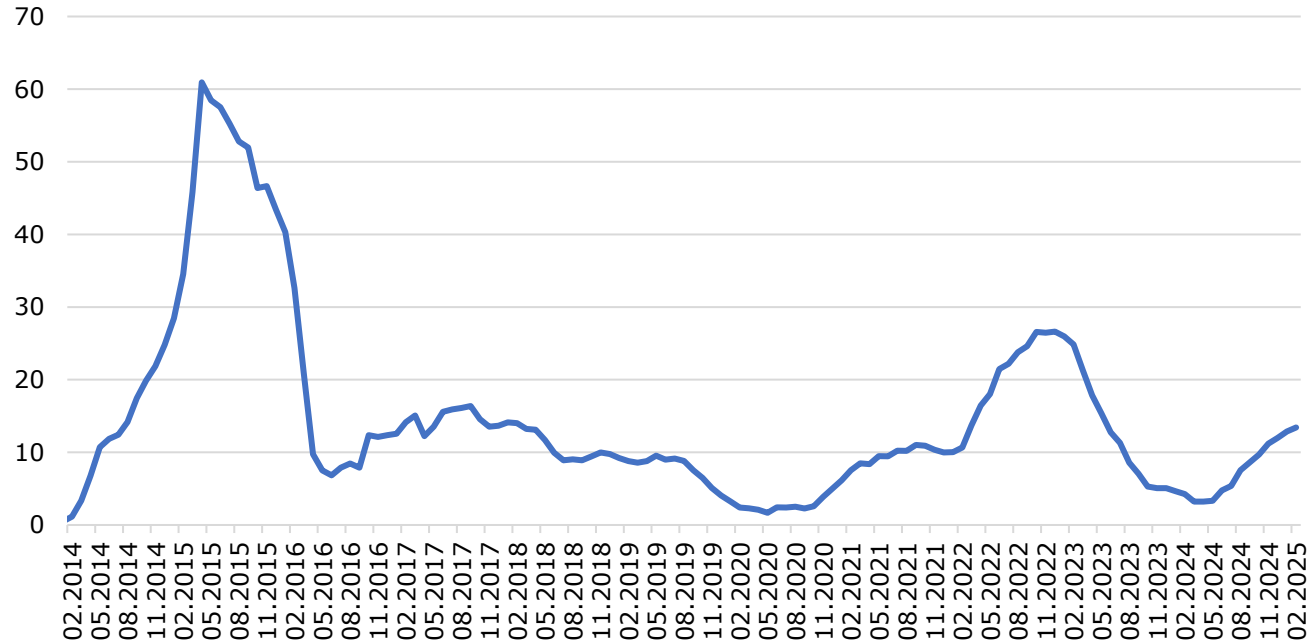
to the special budget fund, primarily military aid, put on the balance sheet of military units. At the same time, the revenues of the State Budget's general fund increased slightly due to higher revenues from personal income and corporate income taxes. The latter increased almost six times compared to last year to UAH 11.2 bn. VAT revenues on goods produced in Ukraine and imported goods and services decreased compared to the second half of 2024 but increased compared to February 2024.

At the same time, in February and early March, uncertainty increased about US assistance to Ukraine, both military and financial. President Trump has stopped any aid to Ukraine, though it has now been promised to be unfrozen. Also, at the end of January, the USAID funding for technical assistance projects was stopped, affecting NGOs and the Government. The United States stopped funding the Energy Fund, which was created to help Ukraine rebuild its energy sector quickly after the Russian shelling. Another critical area of US technical assistance was the development of digital solutions for the Government. Therefore, the Government is currently looking for alternative sources of funding. The suspension of military aid from the United States forced the Government to revise the budget schedule, bringing military spending closer. Although the flow of military aid has at least partially resumed, the risk of further shutdowns remains. Therefore, last year's story may repeat: it will be necessary to make changes to the State Budget to finance defence and security at the end of the year. That is likely to be done with funds received from the ERA. In this case, Ukraine will have little money left to finance 2026, when the need for funds may be the same as this year. Therefore, the efforts of EU countries to develop additional instruments to finance Ukraine's defence are very favourable for Ukraine.

Inflation: Consumer inflation reached 13.4% yoy in annual terms

In February, consumer inflation accelerated again in annual terms and reached 13.4% yoy. The main factors of inflationary pressures have not changed in general: higher producer costs of labour (according to the latest data from the State Statistics Service, average wages increased by 25.6% yoy in the fourth quarter of 2024), electricity and uninterrupted energy supply, and increased inflation expectations. The low stock of products from last year's harvest and rising export prices for Ukrainian agricultural products play an additional role in food inflation.

Figure 6: Consumer price inflation, % yoy



Source: State Statistics Service

However, in monthly terms, inflation amounted to 0.8% yoy and for the first time in six months, price growth did not exceed 1%. While the result of one month will not necessarily repeat itself in the next, it does not appear that one-time factors caused the slowdown in inflation in February. Price changes were small for a large part of the consumer basket. That may reflect a greater

sensitivity of consumers to prices and, accordingly, a decrease in demand for goods and services with the highest price differences.

However, changes in prices for certain goods were more noticeable. Prices for winter clothing and footwear, as usual, decreased in February (by 3% yoy). At the same time, a significant price increase for several food products continued due to the factors we wrote about above. In particular, we are talking about low stocks and increased export prices, including dairy products, oil, some vegetables, and fruits (cabbage, carrots, apples). Also, after the collapse in prices in January, egg prices increased.

Monetary policy and exchange rate: Hryvnia continues to strengthen amid higher interest rates

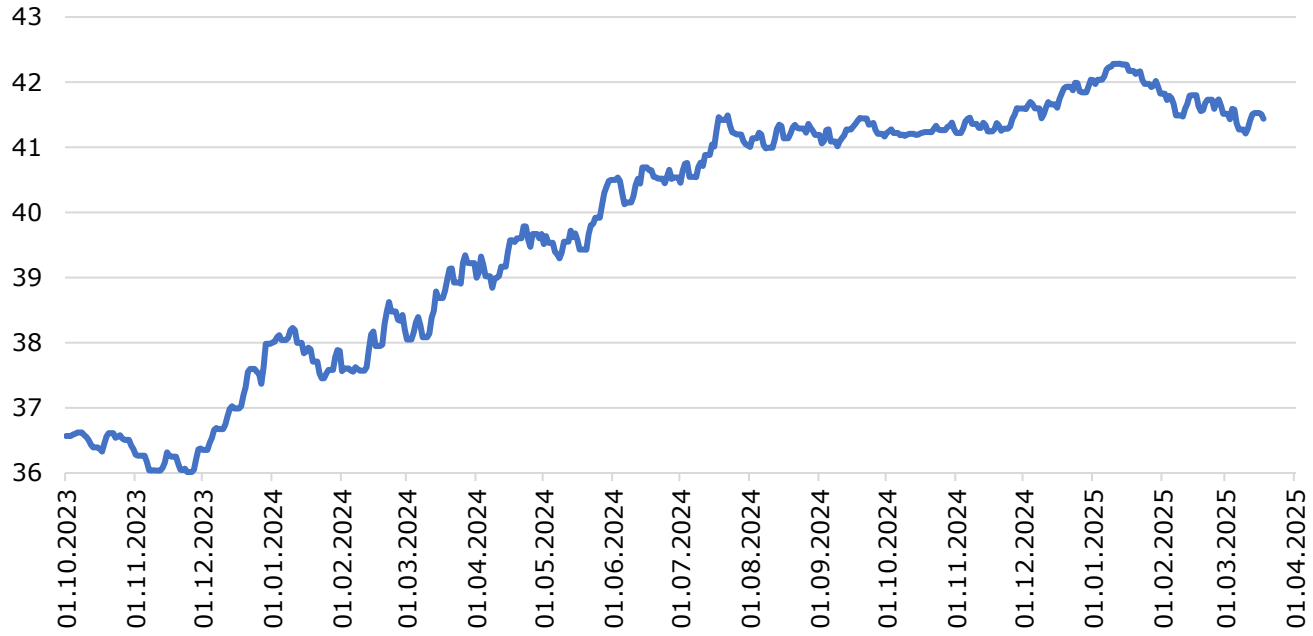
Monetary policy. In March, the NBU again raised the rate from 14.5% to 15.5% per annum in response to high inflationary pressures. The NBU also decided to strengthen incentives for banks to attract term deposits from households.

As for future steps, the NBU assured that it is ready to raise the key policy rate further in the event of increased inflationary pressures. At the same time, most Monetary Policy Committee (MPC) members expressed cautious optimism, believing that the current rate level may be enough to return inflation to a single-digit level and not rule out a return to a reduction in the key policy rate later this year.

Exchange rate. The hryvnia continued to strengthen against the US dollar and remained in the range of UAH 41.2-41.5 per dollar in recent weeks. At the same time, the NBU reduced interventions for the three weeks ended March 16 to USD 1.8 bn (we take the indicator for three weeks, and not as usual for four weeks, so as not to take into account a one-time surge in demand for foreign currency). That reflected a decline in net demand for cash currency and a slight increase in the supply of non-cash currency.

At the end of February, the NBU's international reserves fell to USD 40.1 bn from USD 43.0 bn in January since no donor revenues were planned for February. At the same time, the NBU spent USD 3.0 bn to support the hryvnia in February. After a long break, the Government resumed placing foreign currency government bonds and raised USD 255 m. Still, USD 771 m was spent on servicing foreign currency debt to the IMF, the World Bank, and other creditors. According to estimates, the NBU's reserves cover almost five months of imports of goods and services.

Figure 7: Official exchange rate of hryvnia to US dollar (UAH per USD)



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

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