INSTITUTE
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AND POLICY CONSULTING

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Summary

- The IER estimates real GDP growth at 3.5% in 2024. According to the current IER forecast, real GDP will grow by 2.9% in 2025 and 3.2% in 2026.
- According to the IER, real GDP grew by 2.0% yoy in January (by 1.6% yoy in December).
- In early February, power outages began for industry and businesses during peak hours due to russian attacks on energy infrastructure.
- Naftogaz began importing gas due to a cold snap, the suspension of russian gas transit to the EU, and shelling of gas infrastructure.
- In January, Ukraine exported 6.6 m t of goods by sea and 14 m t by rail.
- There was a seasonal decline in imports and a slowdown in exports in January.
- In January, the government received EUR 3 bn from the EU under the ERA (Extraordinary Revenue Acceleration) mechanism, which should be repaid from profits from russian assets frozen in the EU.
- In January, consumer inflation in annual terms further accelerated and reached 12.9% yoy.
- The NBU raised the rate from 13.5% to 14.5% per annum due to further acceleration in inflation and deterioration in inflation expectations.
- The NBU's international reserves amounted to USD 43 bn at the end of January, which is slightly less than USD 43.8 bn at the beginning of the year.

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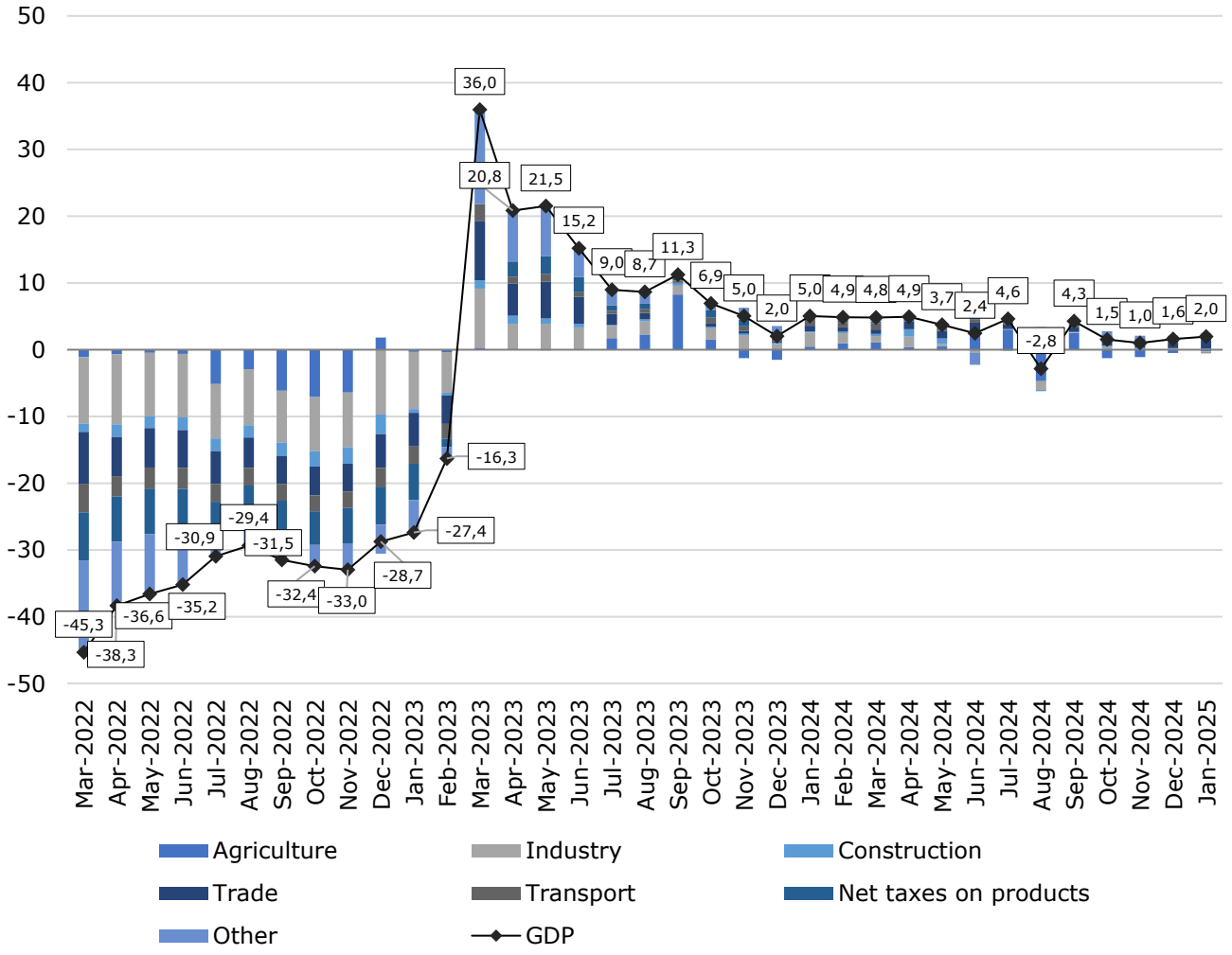
GDP and the real sector: According to the IER, real GDP will grow by about 3% in 2025-2026

According to the IER, real GDP grew by 2.0% yoy in January (by 1.6% yoy in December). The main reasons for the accelerated growth are a smaller decline in agriculture, which now reflects only livestock indicators, the absence of massive planned power outages, and an increase in private consumption. According to the Ministry of Agrarian Policy, real production in livestock production is falling slightly. The number of cattle has decreased, and the situation in poultry is more favorable. According to the IER estimate, real gross value added (GVA) in agriculture decreased by 0.9% yoy in January.

The approach of the frontline and the complete closure of mines near Pokrovsk have negatively affected the pace of economic recovery in Ukraine. This has led to a decline in the extractive industry. At the same time, the situation in iron ore extraction remains positive. According to our estimates, real GVA in the extractive industry decreased by 2.9% y/y in January. However, the advancing frontline may have an even more negative impact on extractive industry indicators in the coming months.

The absence of planned mass power outages has positively influenced the performance of the manufacturing industry. Additionally, domestic demand was favorable for industries oriented toward the internal market. External demand was also supportive of the metallurgy sector. However, the statistical base was high in January. Overall, while certain industries experienced a decline in output, we estimate that real GVA in the manufacturing industry grew by 3.0% y/y in January.

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



Source: IER estimate

The destruction of electricity generation by the russians was not fully compensated by repairs and new generation. But electricity demand was lower this year due to warm weather and emergency

power outages occurred as a preventive measure during shelling. As a result, according to our estimates, real GVA in the electricity generation decreased by 5.1% yoy in January.

The real GVA in trade continues to grow due to the growth of salaries and social benefits. Consumption is also growing against the background of high inflation expectations. In January, according to our estimates, the real increase in GVA in trade slowed down to 4.9% yoy. At the same time, due to the suspension of the transit of russian gas to the EU the real GVA in transport is estimated to decrease by 1.1% yoy.

Overall, the IER estimates a GDP growth rate of 3.5% in 2024. According to the current IER forecast, real GDP will grow by 2.9% in 2025 and 3.2% in 2026.

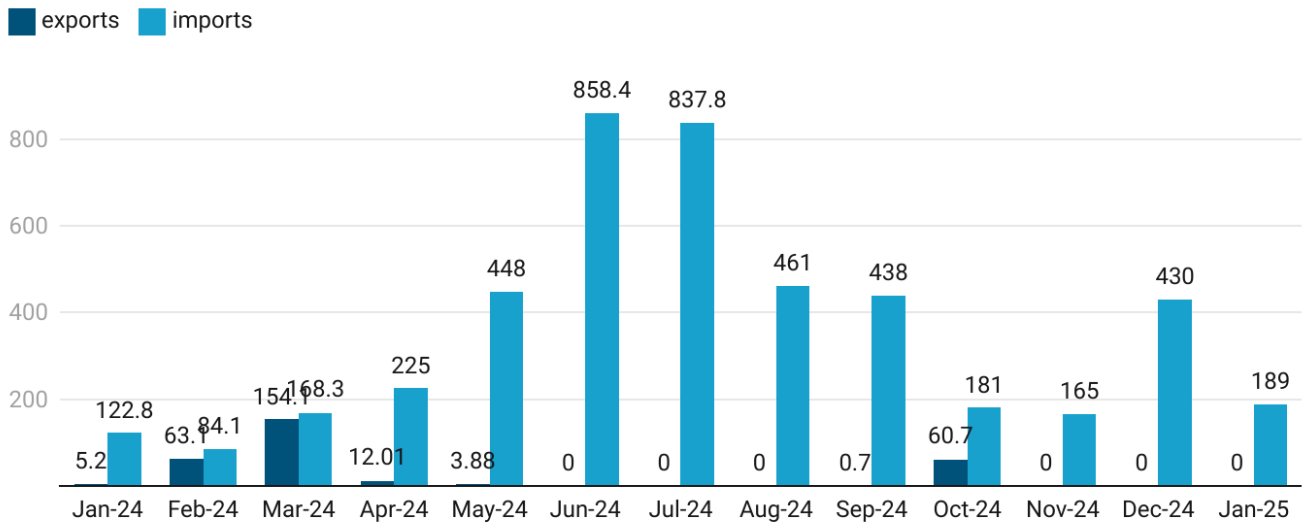
Energy: Naftogaz has started importing gas

Electricity. Russia continues to attack Ukraine's energy infrastructure. In early February, power outages began for industry and businesses during peak hours in the morning and evening. In addition, emergency shutdowns continue during Russian missile and drone attacks on electricity generation and transmission facilities.

In January, Ukraine reduced electricity imports by 56% to 189 thousand MWh. Most electricity was supplied from Poland (30%), Hungary (25.5%) and Slovakia (25%). The reduction in imports in January was due to the improvement of the situation in the energy system and the sufficiency of resources from domestic producers against the backdrop of warm weather.

The Verkhovna Rada adopted the law "On Amendments to Certain Laws of Ukraine in the Energy and Heat Supply Sectors to Clarify the Provisions Related to Martial Law", which, among other things, allocated about UAH 10 bn of funds from Ukrenergo to repay debts in the electricity market. In particular, Ukrenergo's revenues (UAH 10 bn) based on the results of dispatch control activities in 2023-2024 are proposed to be used as follows: 45% to repay Ukrenergo's debt and the debt formed in the balancing market; 45% to cover costs and repay arrears on payments under the "green tariff" to industrial power plants; 10% to cover costs and repay debts to universal service providers so that they can pay the owners of home solar power plants.

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 February, Naftogaz began importing natural gas, despite preliminary assurances that Ukraine would be able to get by with gas of its own production. But the cold snap, the termination of the transit of Russian gas to the EU and the shelling of gas infrastructure made themselves felt, and in February 1-19, the GTS of Ukraine received 270 million m3 of gas.

As of February 23, gas reserves in storage fell to a 10-year low — to 1.98 bn cubic meters (bcm). Last year, from February 23 to the end of the gas pumping season, 1.28 bcm were used. At the same time, external gas supplies to the GTS amounted to 117 million m3. Minister of Energy Herman

Galushchenko said that by the end of this year (that is, for the passage of the current and part of the next heating seasons), Naftogaz will need to purchase at least 1 bcm of gas. According to experts, at least 1.8-2 bcm of gas should be imported to fill storage facilities by the next season, provided that there is no further destruction of gas infrastructure as a result of Russian shelling.

On February 6, energy customs issued the first declaration for the export of biomethane to Europe through the gas transmission system. The volume of the first batch of Ukrainian biomethane in the EU amounted to 67,000 cubic meters. The pipeline export of biomethane opens up prospects for the supply of clean gas to Europe and will contribute to the development of the agricultural sector and investments in the field of bioenergy.

Transport: A sea container line between Odesa and Istanbul has been launched

Sea transport. Russia continues to attack Ukraine's port infrastructure. In late January and early February, there were several attacks on the ports of Odesa, Izmail and Chornomorsk, and port infrastructure was damaged. In January, Ukraine exported 6.6 m t of goods by sea.

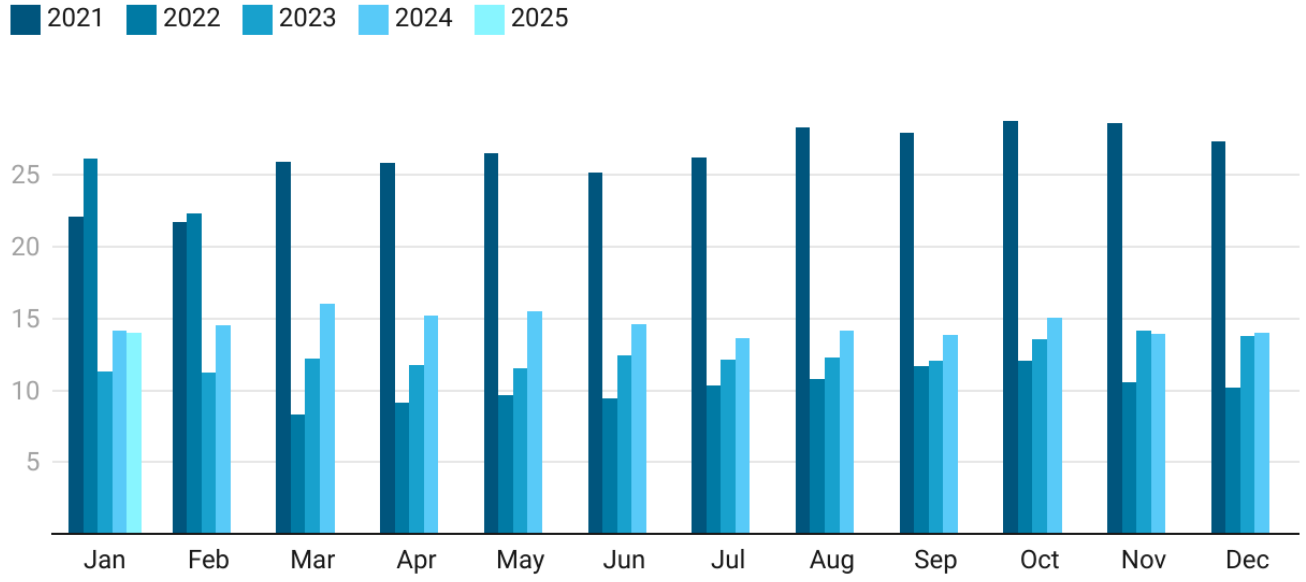
The Istanbul-Odesa container line has been launched. The first container call of the Turkish company Medkon Lines to the port of Odesa since the beginning of the full-scale invasion took place on January 5. According to the schedule, two container ships will operate on the line.

Rail transport. In January, 14 m t of cargo were transported by rail, which is at the level of December 2024 and 1% less than in January 2024. Of these, 5.5 m t were transported to ports and 2 m t of cargo to the western border. The largest share in transportation is ore (44%), grain (38%) and ferrous metals (6%).

In January 2025, Ukrzaliznytsia paid a coupon for Eurobonds due in 2026 and 2028. This comes after its bondholders failed to accept the company's proposed 12-month coupon deferral, starting in December 2024, to preserve liquidity for its critical operation, maintenance and repair needs in 2025. S&P Global Ratings, accordingly, upgraded Ukrzaliznytsia's credit rating from 'CC' to 'CCC-', noting that the risk of the company's immediate default decreased after coupon payments, but the outlook remained negative.

Intermodal container transportation by rail in 2024 increased by 28% to 258.2 thousand TEUs (twenty-foot container equivalents). Among them, 162.7 thousand TEU were transported in export traffic, in import 55.6 thousand TEU, in domestic traffic 38.7 thousand TEU and transit 1.19 thousand TEU. The main cargoes were grains (46%) and ferrous metals (20%).

Figure 3: Rail transportation of goods, million tons



Source: Ukrzaliznytsia

A modernized border control point for Ukrzaliznytsia trains has been launched near the Polish border. If earlier the control was carried out on the Mostyska-State Border section, now it has been

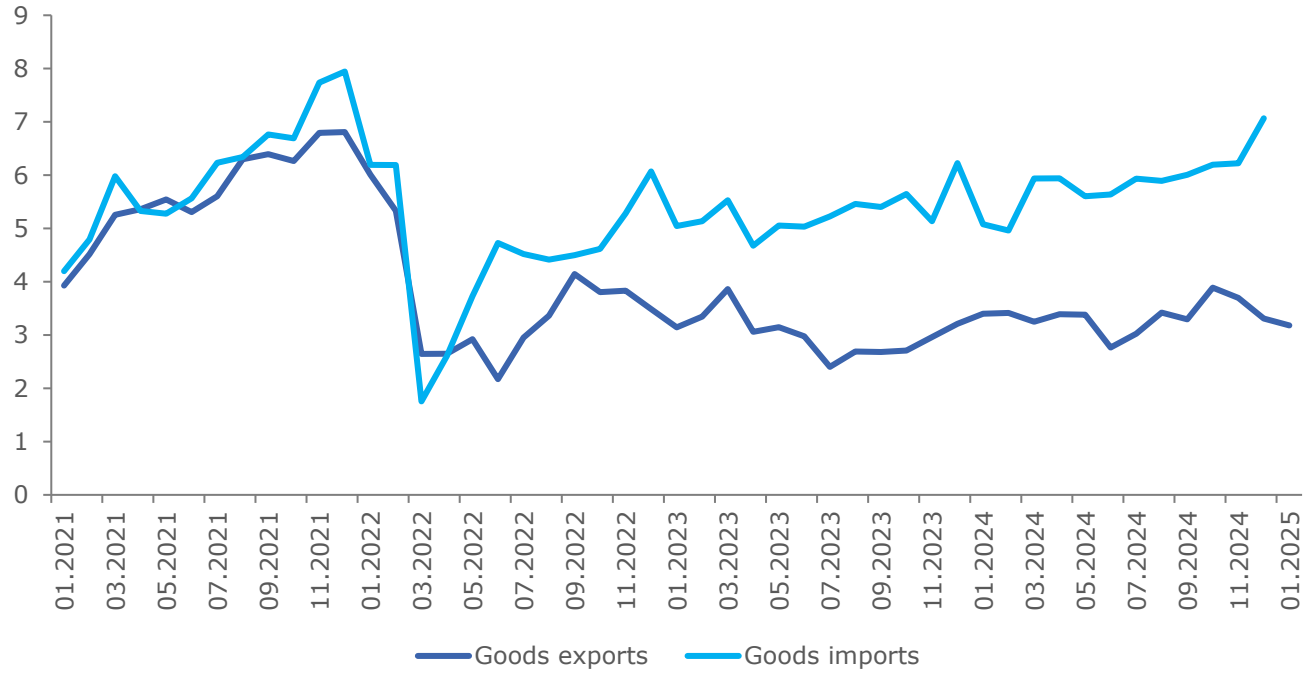
transferred to the Mostyska II station. The capacity of the point has increased from 6 to 15 trains per day.

Road transport. Ukraine and North Macedonia have expanded the Agreement on International Road Transportation, enshrined in a protocol the cancellation of permits for bilateral and transit transportation of goods. The Agreement was signed in 2002, and the decision to cancel the permits was made in 2023 at a meeting of the Ukrainian-Macedonian Joint Commission on International Road Transport of Passengers and Cargo.

Foreign trade: Seasonal decline in imports in January and slowdown in exports

Exports of goods in January fell by 6% yoy and by 4% mom to USD 3.18 bn. Exports of agricultural goods continued to decline compared to previous months amid a decline in inventories of goods. Agricultural exports fell in annual terms by 18% yoy to USD 1.85 bn. due to a smaller harvest and lower carry-over inventories at the beginning of the marketing year. Physical export volumes of key agricultural commodities fell even more, but export earnings were supported by higher prices and gradual diversification of agricultural exports.

Figure 4: Trade in goods of Ukraine, USD bn



Source: State Customs Service of Ukraine

Exports of metallurgical products remained stable compared to December at USD 328 m but fell in annual terms by 10% yoy. Export earnings were restrained by the decline in export prices. Exports of mineral products decreased compared to December, when a record volume of iron ore was exported (3.45 million tonnes), and amounted to USD 287 m. Exports of mineral products also fell year-on-year by 10% yoy due to lower iron ore prices than last year. However, exports of other goods, in particular machinery and equipment , increased significantly both compared to December and in annual terms.

Imports of goods in January fell to USD 5.55 bn. This reflected a seasonal decline in imports compared to December volumes. In annual terms, imports increased by 9% yoy. Imports of machinery and equipment amounted to USD 2.16 bn. and increased by 17% yoy, including due to a sharp increase in imports of energy equipment (USD 431 m in January 2025 compared to USD 85 million in January 2024). At the same time, car imports fell.

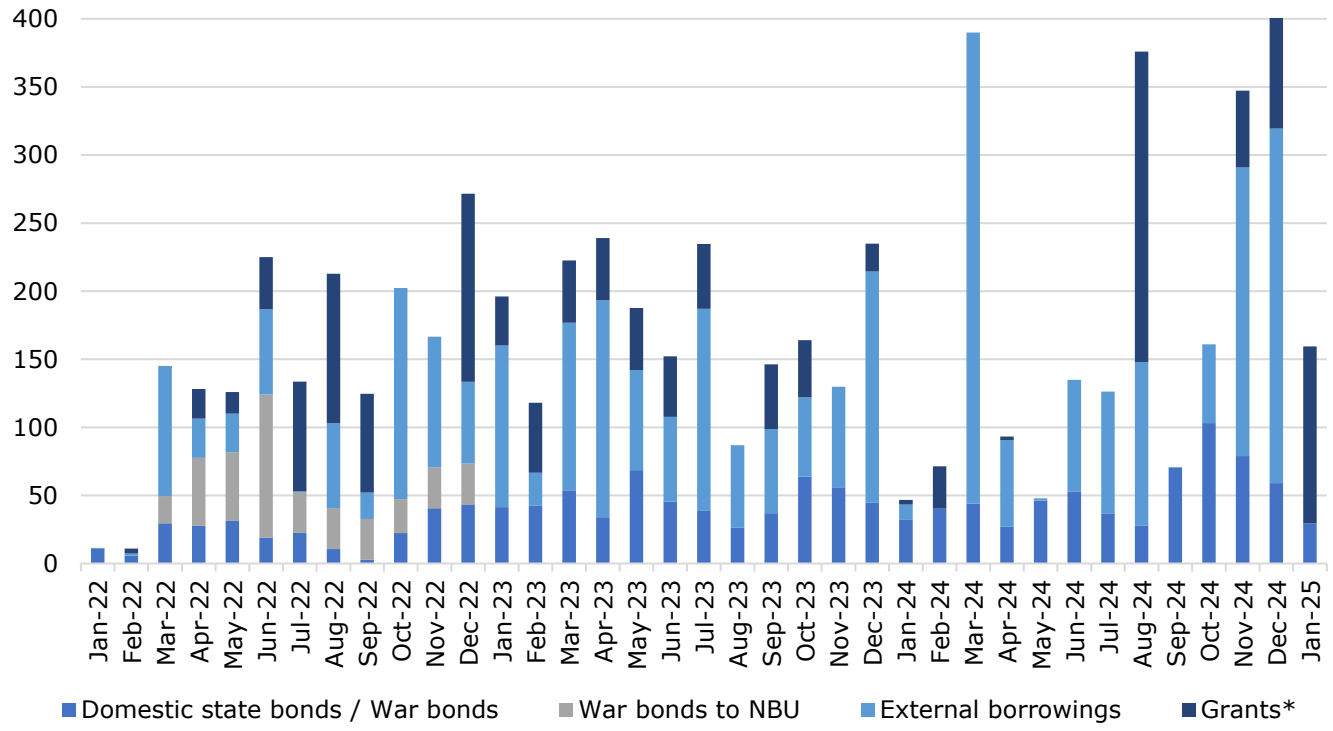
Energy imports increased by 27% yoy and reached USD 735 m. against the backdrop of a sharp increase in imports of electricity, gas and coal. The growth in imports was restrained by lower import prices for petroleum products. Imports of defense goods also increased compared to last January. Imports of other goods, i.e. foodstuffs, chemical products and other industrial goods, fell slightly.

Fiscal policy: EUR 3 bn received from the EU under the ERA mechanism

After revenues and expenditures skyrocketed in December, January's figures were significantly lower. At the same time, high liquidity allowed the government to finance urgent expenditures, although they were lower than planned, and reduce placements of domestic government bonds on the domestic market, and slightly reduce the rate of return.

Thus, state budget expenditures in January amounted to UAH 353 bn, which is close to the average in February-November 2024. At the same time, expenditures of the general fund of the state budget increased by 42% yoy from the low base of January 2024, when the government's liquidity was low and there was a lack of international support. Instead, in January 2025, the government received EUR 3 bn from the EU under the ERA (Extraordinary Revenue Acceleration) mechanism, which should be repaid from profits from russian assets frozen in the EU. It is likely that due to the liquidity accumulated at the beginning of the year, the government reduced the placement of domestic government bonds to UAH 29.5 bn (compared to UAH 79 bn in November and UAH 58 bn in December 2024), decreasing the weighted average rate to 14.89%.

Figure 5: State Budget financing and grants, UAH bn



Note: * grants are part of budget revenues, which are 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 received from the US and the EU, respectively, under the ERA mechanism
Source: Ministry of Finance

At the same time, the execution of State Budget revenues was positive in January: revenues administered by the State Tax Service were over-executed by 14.8% (+UAH 9.8 bn), and those administered by the State Customs Service – by 0.8% (+UAH 0.4 bn). In general, the State Budget revenues in January amounted to UAH 283 bn, which is quite high compared to a number of months in 2024. One of the reasons for such revenues was revenues due to the special budget fund in the amount of UAH 156 bn, which is most likely explained by military aid.

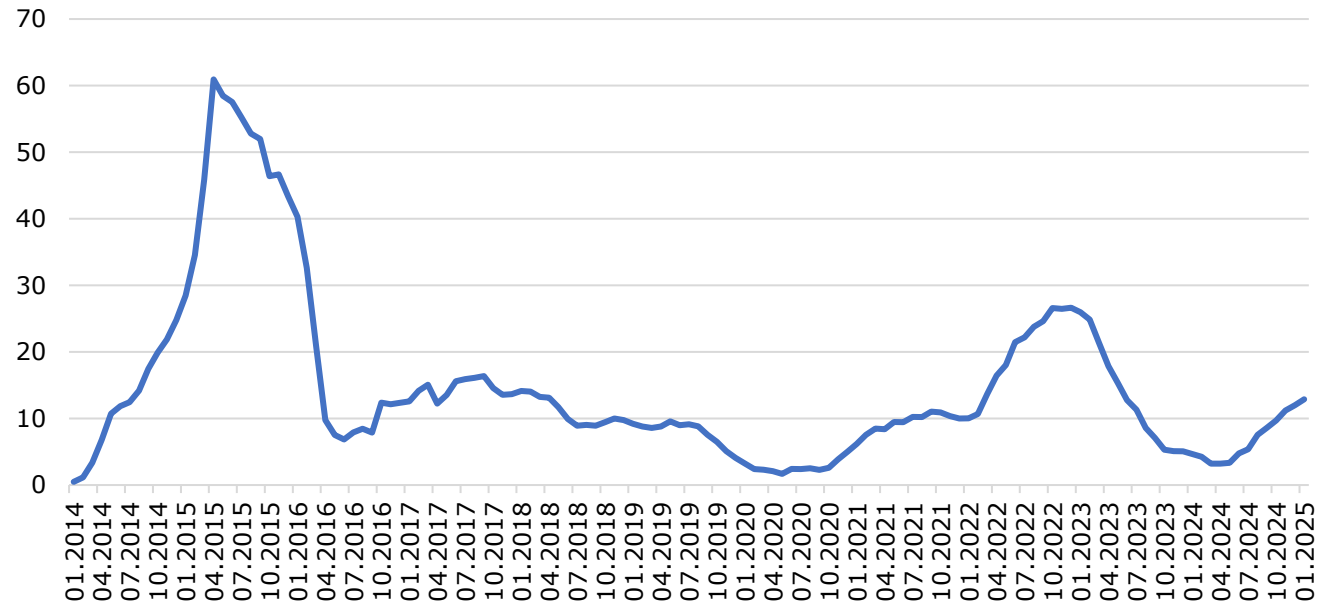
The revenues of the general fund of the State Budget amounted to UAH 128 bn, which is close to October 2024. There were no grants in January. Revenues from corporate profit tax (CPT) amounted to UAH 2.3 bn, but the payment of this tax is expected to be high in March, when the 2024 CPT will be paid and financial companies will pay tax at the rate of 50%. Income from personal income tax grew due to increase in military levy from 1.5% to 5%. High private final consumption in December explains the record gross domestic VAT revenues at UAH 53 bn. VAT refunds again decreased to UAH 15.5 bn. At the same time, revenues from import VAT decreased by 1% yoy: according to the State custom service taxed imports decreased.

n 2024, Ukraine largely met its structural benchmarks under the IMF program on time, allowing it to pass the sixth review of the program. It also implemented indocators of the Ukraine Plan, resulting in EUR 16.1 billion in financial support from the EU. However, Ukraine has yet to fulfill two structural benchmarks that are crucial for the seventh review of the IMF program: repealing the Lozovyi amendments and establishing a new administrative court. This poses risks to the timely receipt of the next IMF tranche of USD 0.9 billion. At the same time, the IMF program plays a key role in negotiations for financial support in 2026. This is particularly critical given the turbulence that has arisen following Trump's inauguration.

Inflation: Consumer inflation reached 12.9% yoy

In January, consumer inflation in annual terms further accelerated and amounted to 12.9% yoy. In general, the growth reflected similar factors as in previous months: higher producer costs, including labor costs, a certain recovery in consumer demand, and an increase in inflation expectations. For food products, last year's low harvest, in particular low vegetables harvest, and the narrowing of the gap between domestic and world prices for agricultural commodities continue to play a role.

Figure 6: Consumer price inflation, % yoy



Source: State Statistics Service

In monthly terms, inflation slowed slightly to 1.2% yoy, but once again exceeded 1% per month (a price increase of 1% per month corresponds to an inflation of 12.7% in annual terms). In January, egg prices collapsed (by 23% yoy) and there was a seasonal decline in prices for winter clothes and shoes. However, prices for some vegetables continued to rise, an increase in excise taxes added to the prices of fuel and tobacco products, and a change in the rules of operation sharply increased the cost of third-party car insurance. Also, mobile and Internet service providers decided to continue revising their tariffs and the cost of their services increased by an average of 11.2% mom in January, after an increase of 5.2% mom in December. For comparison, the growth over the previous 12 months was 7.2% yoy (i.e. in November 2024 to November 2023).

Monetary Policy and Exchange Rate: Higher Rate and Hryvnia Strengthening

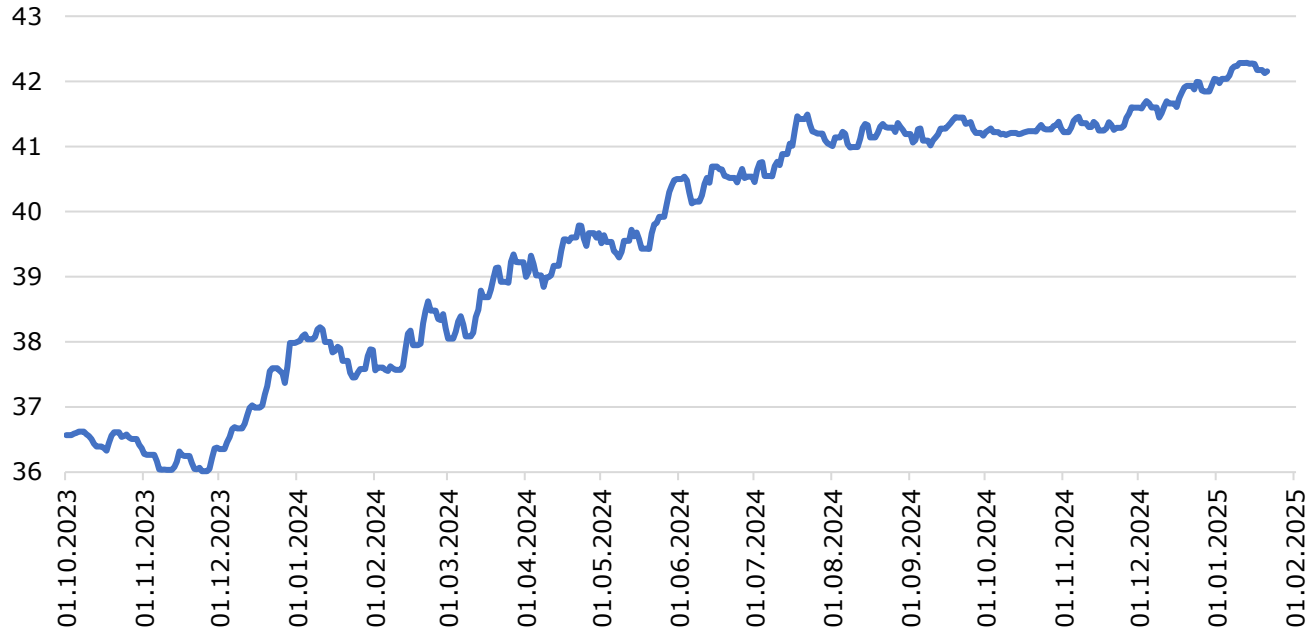
Monetary policy. In January, the NBU raised the policy interest rate from 13.5% to 14.5% per annum in response to further acceleration in inflation and a deterioration in inflation expectations. Despite the sharp acceleration in inflation, some members of the committee advocated a more moderate rate hike. According to the NBU's updated forecast, inflation will peak at 14% in the first quarter, but will return to single-digit levels by the end of the year. This is broadly in line with the IER's forecast for inflation this year. Majority of the MPC members expect further policy rate hikes but the path of rates this year remains rather uncertain.

The NBU slightly weakened its forecast for real GDP growth this year to 3.6% (from 4.0% in October) due to increased war risks, but at the same time expects some acceleration of growth in the second half of the year. The IER expects weaker growth in 2025.

Exchange rate. The hryvnia strengthened slightly in the second half of January and in the first half of February from a peak of UAH 42.3 per US dollar to UAH 41.5 and further fluctuated in the range of UAH 41.5-42.0 per USD. This probably reflects a seasonal decrease in demand for foreign currency, in particular to pay for imports. According to the NBU, the demand for foreign currency, both the demand of legal entities and private clients of the bank, decreased. This allowed the NBU to slightly reduce interventions in four weeks that ended on February 23 to USD 2.9 bn.

The NBU's international reserves amounted to USD 43 bn. at the end of January, which is slightly less than USD 43.8 bn. at the beginning of the year. The government attracted 3 bn euros from the EU, but spent USD 536 mi for debt servicing in foreign currency, including for repayment of foreign currency domestic government bonds. At the same time, the NBU spent USD 3.75 bn on interventions in the foreign exchange market in January. As before, the NBU's reserves cover more than 5 months of imports of goods and services.

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



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

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