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Resume

- According to the current IER estimate, real GDP grew by 3.2% in 2024, however, the growth rate could be generally in the range of 3.2%-3.7% in 2024 depending on the contribution of the public sector.
- According to the IER, real GDP grew by 1.4% yoy in December.
- In December, Ukraine increased electricity imports by 2.6 times – up to more than 430 thousand MWh.
- From January 1, 2025, Ukraine stopped the transit of russian gas to Europe due to the expiration of the Agreement on Cooperation between GTS Operator of Ukraine and Gazprom.
- In 2024, the seaports of Ukraine handled 97.2 m t of cargo (+57% yoy).
- Ukrzaliznytsia transported 174.9 m t of cargo in 2024 (+18% yoy).
- In 2024, exports by road amounted to more than 10 m t (+5% yoy).
- Exports in December fell due to a decrease in stocks of agricultural products, and imports of machinery and equipment exceeded the pre-war level in dollar terms
- In December 2024, state budget expenditures were record high and skyrocketed thanks to international aid.
- It is expected that in 2025 the largest amount of funding will come under the ERA mechanism, which collectively provides assistance from G7 at USD 50 bn.
- In December 2024, inflation reached 12% yoy due to rising producer costs and a gradual recovery in demand.
- The hryvnia weakened slightly against the dollar due to strong demand, but the NBU restrained exchange rate changes.

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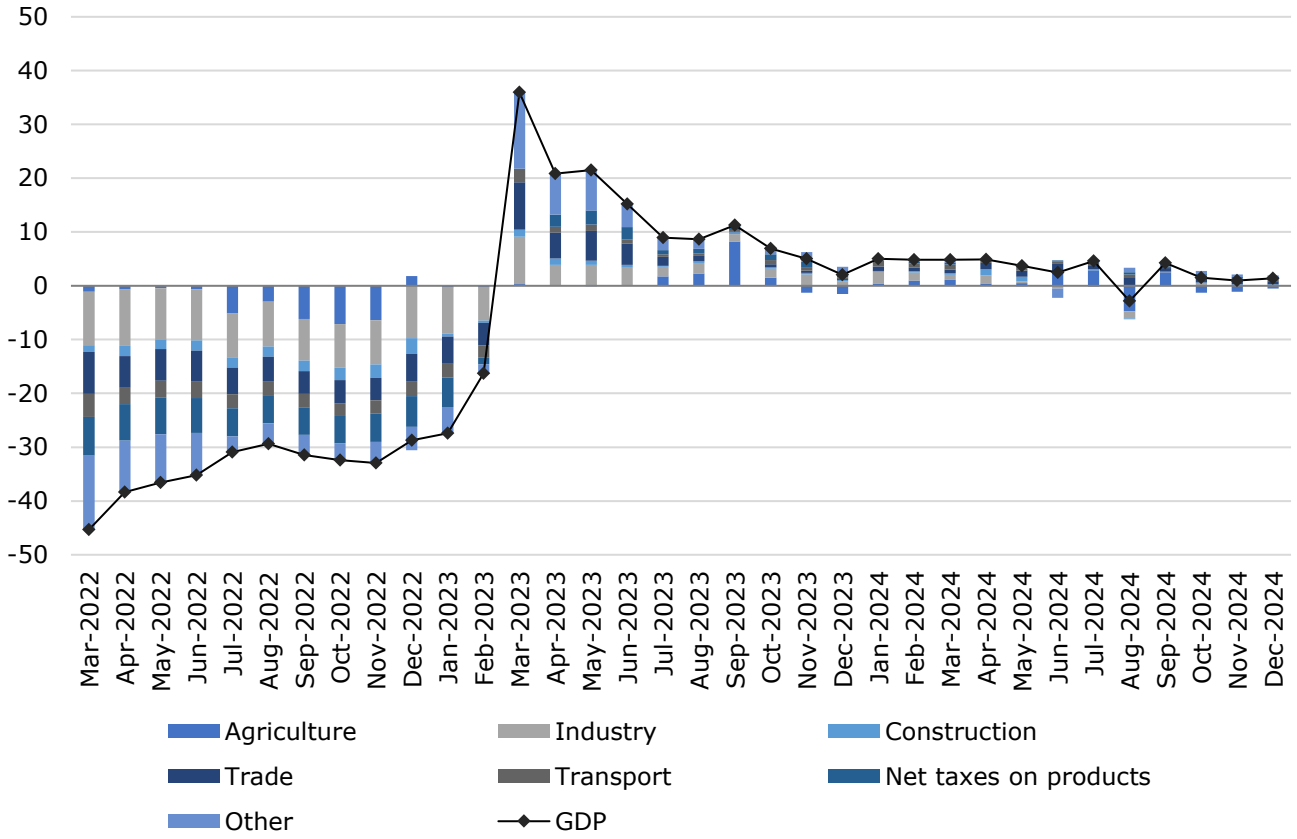
GDP and the real sector: Real GDP is estimated to grow by 3.3-3.7% in 2024

The IER's estimate of real GDP growth for the 3rd quarter of 2024 turned out to be very close to the preliminary number issued by the Ukraine State Statistics Service (Ukrstat): 2.1% yoy compared to 2.0% yoy. At the same time, our estimates of the growth of real gross value added (GVA) of industry were too optimistic compared to the actual indicators of industrial production. This also applied to construction. Therefore, we slightly revised the estimates by sectors for the 3rd quarter as well as October and November 2024 to take into account the new data in the growth estimate for December. According to the updated calculations of the IER, real GDP growth rates were: 1.5% yoy in October and 1.0% yoy in November.

According to the IER, real GDP grew by 1.4% yoy in December. Russian shelling of industrial and energy infrastructure, the offensive of russian forces at the frontlines negatively affected the indicators of industrial development in December. According to the IER, electricity production decreased by 5.2% yoy in December. At the same time, real GVA in the extractive industry probably remained close to the previous year's figure, thanks to higher production of natural gas and iron ore, which still offset the decline in coal production. Stable demand and logistical opportunities for exports contributed to the development of metallurgy (in particular, exports of finished metallurgical products continued to grow). Machinery and equipment output grew due to defense purchases and export growth. As a result, according to estimates, the real GVA in the processing industry increased by 4.2% yoy. Due to higher budget expenditures, the growth rate of GVA in construction grew faster in the fourth quarter than in the third.

The real GVA in livestock production is declining. This applies to milk production, the number of cattle, etc. The corn harvest continued, but at a slow pace. According to our estimates, the real GVA in agriculture decreased by 4% yoy in December.

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



Source: EED assessment

However, in December, state budget expenditures were record-high, although there are currently no complete data on the state budget. Therefore, we may not have fully taken into account the impact of state expenditures on the performance of the public sector and sectors of the economy that received additional funds from the budget. This may mean that our estimate of real GDP in December may be too pessimistic. Therefore, in general, according to our current estimate, real

GDP grew by 3.2% in 2024, but the growth rate may be generally in the range of 3.2%-3.7% in 2024.

For a more accurate assessment of the result for 2024, there is also a lack of an updated quarterly structure of GDP for 2023 – the Ukrstat has revised the annual figures quite significantly.

Energy: Electricity imports in December increased by 2.6 times compared to November

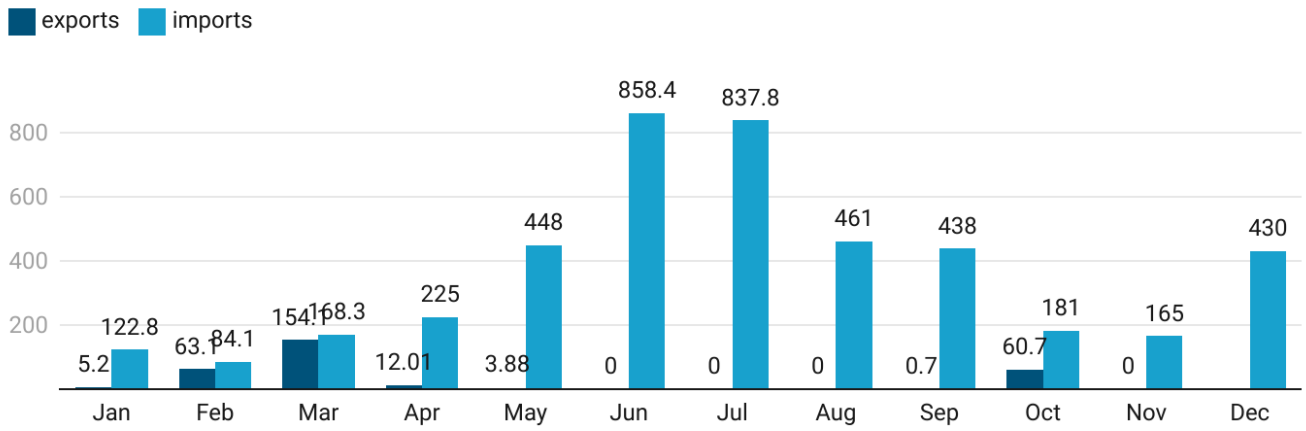
Electricity. Russia continues to attack Ukraine's energy infrastructure. In December and early January, there were several major attacks. According to government reports, 69 Ukrenergo substations out of 84 large facilities have been provided with the second level of protection (against drones), i.e. about 20% of large substations do not have protection against drones. Another 13 stations will be protected in January. In addition, the government started constructing the third level of protection facilities which should protect 22 substations from missile strikes.

The Ministry of Development and the Ministry of Energy have approved energy independence passports for each region of Ukraine. The passports assess the potential for the development of distributed generation in the region and allow regional administrations to develop detailed action plans considering the specifics of each territory.

In December, Ukraine increased electricity imports by 2.6 times – up to more than 430 thousand MWh. And in total, in 2024, Ukraine imported 4.4 m MWh, which is 5.5 times more than in 2023. In December, the largest share of imports came from Hungary (35%), followed by Slovakia with 25%. Electricity exports in 2024 remained almost at the level of 2023 – 366 thousand MWh.

Since December 30, JSC Market Operator has closed some data on trading in the electricity market (day-ahead market and intraday market), citing martial law and enemy attempts to destroy energy infrastructure. Such a decision will worsen the transparency of the energy sector.

Figure 2: Export and import of electricity in 2024, 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. From January 1, 2025, Ukraine stopped the transit of russian gas to Europe due to the termination of the Agreement on Cooperation between the GTS Operator of Ukraine and Gazprom for the physical connection points of the russian federation-Ukraine between the gas transmission systems of Ukraine and the russian federation dated December 30, 2019. Accordingly, the transportation of natural gas from the Sudzha entry point on the eastern border of Ukraine to the exit points on the western and southern borders was stopped. The GTS Operator of Ukraine informed international partners about this in advance. During the five-year contract, 148 bn cubic meters (bcm) of natural gas passed through Ukraine, 66% of the booked capacities, for which Ukraine received about UAH 195 bn. To work in the new conditions, the GTS Operator negotiated to increase the guaranteed capacity for gas supply to the GTS of Ukraine from the western direction. In 2024, for the first time, Ukraine received guaranteed capacities from Moldova (up to at least 7 m cubic

meters per day) for gas transportation along the Trans-Balkan route. Also, the GTS Operator of Ukraine negotiated with the operator of the Polish gas transmission system "Gaz-System" to reserve guaranteed capacities for the import of natural gas from Poland to Ukraine in the amount of about 5.15 m cubic meters per day.

In 2024, Ukrainian companies produced 19.12 bcm of gas, which is 2% more than in 2023. The largest share was produced by state-owned companies: Ukrgasvydobuvannya produced 14.55 bcm of gas, and Ukrnafta – 1.17 bcm. Private companies produced more than 3.4 bcm, reducing production by 8%. Further reduction in production volumes by private companies is associated with the blocking of special permits, in particular for Ukrnaftoburinnya, which did not produce natural gas from December 2023 to August 2024. In addition, in November, the State Service of Geology and Subsoil suspended the validity of special permits for "Smart Energy".

Coal. On December 20, the Metinvest Group blew up the vertical shaft No. 3 of the mine in the village of Pishchane near Pokrovsk (Pokrovske Mine Administration) so that the russians could not use the mine for the secret transfer of troops. Explosives were planted in two other mines of the Group that remain under Ukrainian control today (in Kotlyne and Udachne). On January 14, Metinvest reported that the work of the Pokrovsk coal group (includes the Pokrovske mine administration and the Svyato-Varvarynska processing plant) was suspended due to the change in the situation on the front line, electricity shortages and deterioration of the security situation.

According to the government, Ukraine has more than 3 m t of coal in TPP warehouses, which is a record figure. Before the start of the previous heating season 2023-2024 in October 2023, the total level of coal reserves for power plants was estimated at about 1.3 m t.

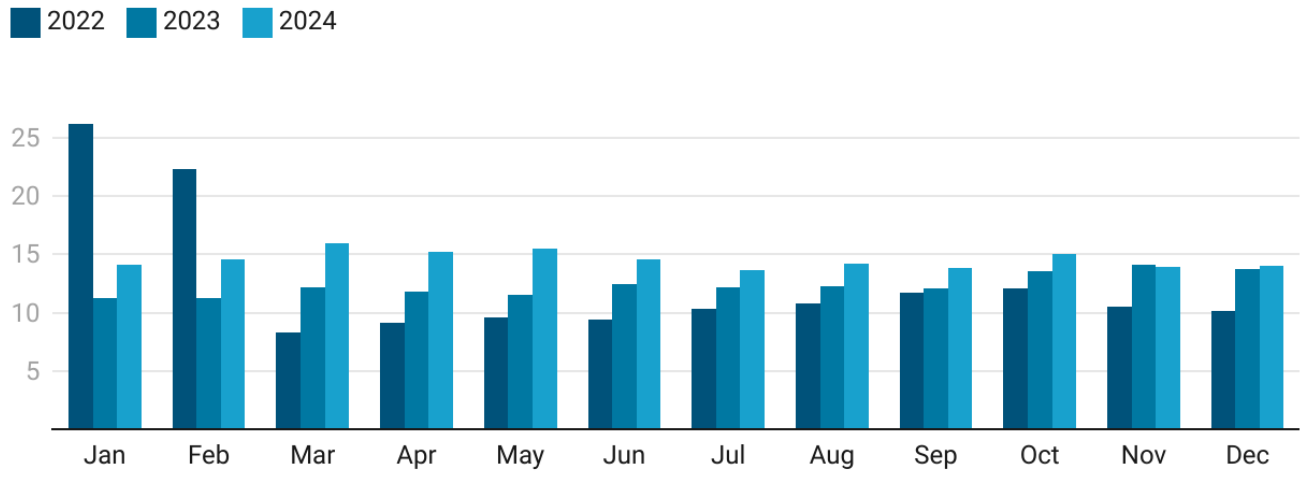
Transport: Seaports lead in export cargo transportation in 2024

Sea transport. In 2024, the seaports of Ukraine handled 97.2 m t of cargo (+57% yoy). The main cargo during this period was grain (60.3 m t) and ore (18.5 m t). Most of the cargo was handled by the port of Pivdenny – 35.55 m t, port of Chornomorsk handled 26.04 m t, and the port of Odesa 18.30 m t.

In 2024, 79.9 m t of cargo were transported through the Ukrainian corridor, of which 76.4 m t were exports. 3138 vessels used the Ukrainian sea corridor since the beginning of its operation. Accordingly, the ports of the Danube cluster handled 17.3 m t of cargo in 2024, which is 46% less than in 2023, when 32 m t were transshipped.

Rail transport. Ukrzaliznytsia transported 14 m t of cargo in December, which is 1% more than in November and 2% more than in December 2023. Export traffic to the western border in December amounted to 2.4 m t, +1% mom. Transportation in the direction of seaports amounted to 4.9 m t (an increase of 19% mom). The main cargo was grain and flour (2.7 m t) and ferrous metals (0.5 m t).

Figure 3: Railway freight transportation, m tons



Source: Ukrzaliznytsia

In total, in 2024, Ukrzaliznytsia transported 174.9 m t of cargo, which is 18% more than in 2023. Transportation in the direction of the western border for the year decreased by 9% to 30.9 m t, and to ports increased by 2.4 times and reached 53.8 m t.

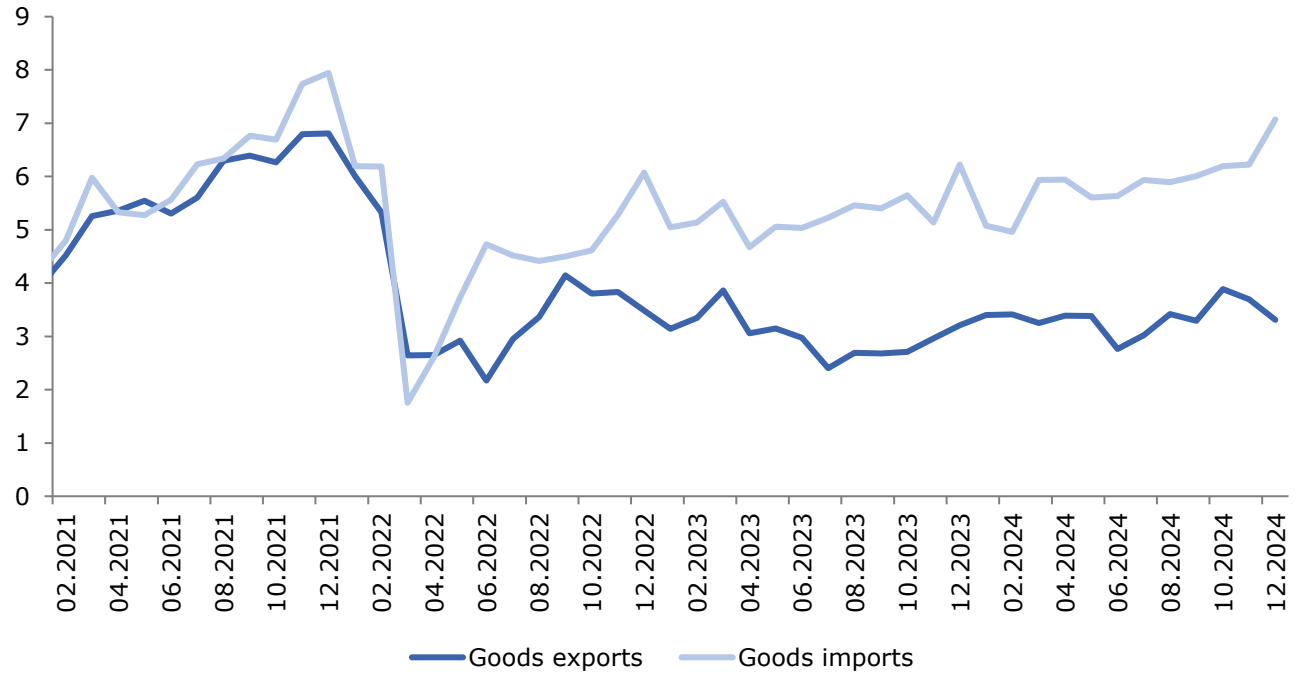
Road transport. In 2024, exports by road amounted to more than 10 m t for USD 14.7 bn, which is 5% more than in 2023.

Cargo carriers received permits to transport to other countries in 2025. In 2025, the Agreement between Ukraine and the EU on freight transportation by road continues to be in force, which liberalized bilateral and transit transportation. However, the Agreement does not apply to transportation by Ukrainian carriers that do not end and start in Ukraine, i.e. between EU countries or between EU countries and third countries. For 2025, as well as in 2024, the exchange of permits with Poland was not carried out, and therefore transportation from third countries is carried out using ECMT licenses. For 2025, there will also be no exchange of permits with Austria, Belgium, Italy and the Netherlands. Ukraine has received permits from Bulgaria, Estonia, Norway, Slovakia, Slovenia, Turkey, Hungary, the Czech Republic and Kyrgyzstan, permits from Azerbaijan, Kazakhstan and Uzbekistan are expected to arrive soon.

External trade: Exports declined in December, while imports increased

Exports of goods in December decreased compared to November, but remained close to the average this year. It amounted to USD 3.31 bn. In particular, the export of agricultural products decreased to USD 2.01 bn. compared to USD 2.31 bn in November. Thus, exports of wheat, soybeans, sunflower oil, and rapeseed fell significantly, while corn exports increased slightly. This probably reflected a decrease in stocks in Ukraine and new requirements for the export of certain types of agricultural products.

Figure 4: Trade in goods of Ukraine, USD bn



Source: State Customs Service of Ukraine

Exports of metallurgical products stopped the decline and amounted to USD 325 m in December but remained below the average last year. This is in line with the dynamics of steel production in Ukraine. The structure of exports of steel products has also changed in favor of more processed products. Exports of mineral products rose to USD 313 m, the highest since May, due to higher iron ore exports. Exports of machinery and equipment and other industrial goods fell in December, likely due to a seasonal decline in demand.

Imports of goods in December reached USD 7.07 bn. This reflected seasonal growth in imports against the backdrop of a gradual increase in consumer goods imports. Imports of machinery and equipment amounted to almost USD 2.75 bn, while in December 2021 this figure was at the level of USD 2.45 bn. Imports of machinery and equipment exceeded pre-war levels as imports of energy

equipment and imports destined for the front, such as drones or cars for military needs, grew. Also, over the past three years, demand has gradually recovered and import prices have risen. Food imports increased compared to the previous month against the backdrop of a shortage of certain goods in Ukraine and seasonal demand. Imports of chemical industry products, including medicines, also increased.

Fiscal policy: Record spending and international aid in December

According to preliminary data, state budget revenues in December increased to UAH 470 bn due to an increase in revenues to the general fund and higher revenues to the special fund. At the same time, it is likely that a large share of the income of the special fund is explained by in-kind military aid.

Revenues to the general fund of the state budget amounted to UAH 286 bn (in November – UAH 220 bn, in October – UAH 129 bn) due to several important reasons. First, the grants amounted to about UAH 130 bn (in equivalent). Also, in December, amendments to the Tax Code came into force, which were designed to increase budget revenues to finance defense and security. Thus, in December, the military levy was increased from 1.5% to 5% paid on personal income, including wages (at the same time, the introduction of the military levy for private entrepreneurs under the simplified taxation system was postponed to January 1, 2025). Revenues from corporate income tax (ECT) in the amount of UAH 19.8 bn were also high, which is associated with an increase in the rate of this tax for banks from 25% to 50% and other financial institutions from 18% to 25%. Revenues from personal income tax (PIT) also increased also due to the payment of bonuses and compensations (the latter, in particular, were paid for unused annual leave).

Further strong consumption contributed to gross domestic VAT revenues of UAH 42.9 bn (+28% yoy). At the same time, VAT refunds also increased to UAH 17.3 bn, which is significantly higher than the average annual amount. Record VAT revenues on imports amounted to UAH 42 bn (+17.7% yoy), which is associated with an increase in imports.

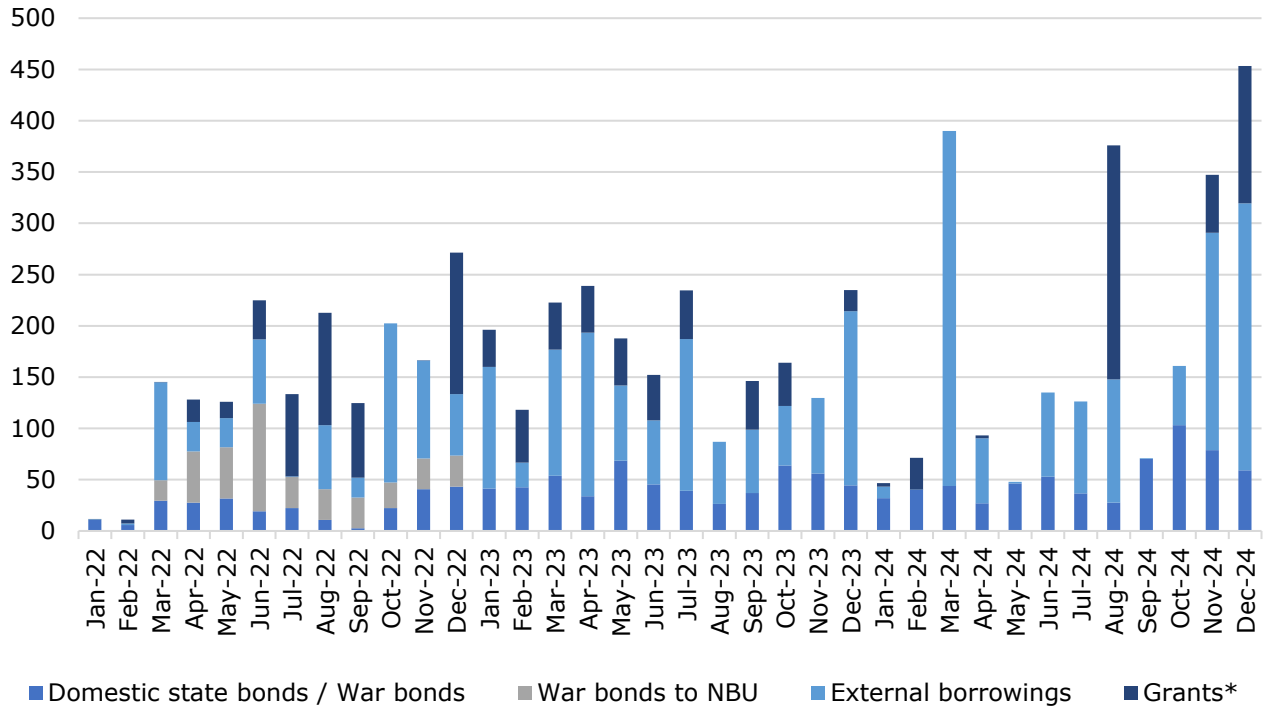
Although revenues increased significantly in December, they turned out to be 36% lower than planned. This is due to the peculiarities of budget planning, since the planned indicators of December take into account the underperformance of planned revenues for previous months. At the same time, one of the reasons for the under-execution of revenues in 2024 was the entry into force of amendments to the Tax Code from December 2024 and January 2025, and not October as it was initially planned, since the President signed the relevant draft law only a month and a half after approval by the parliament. Taxed imports was lower than expected, which is partly due to the benefits for the import of energy equipment and appliances introduced in the summer.

In December, the budget received not only grants, but also high loans. As a result, the government financed record spending in December. Expenditures of the general fund of the state budget amounted to a record UAH 490 bn (in November at UAH 340 bn), which is 22% more than in December 2023. The total expenditures of the state budget amounted to about UAH 680 bn. Such expenditures allowed the government to almost meet the annual indicator of total expenditures – the underperformance was less than 2% of the plan. However, for a more detailed analysis, we need to wait for detailed figures.

In December, Ukraine received a record amount of international aid – USD 9.4 bn (equivalent). Thus, due to a delay in the implementation of one of the indicators of the Ukraine Plan, Ukraine received a tranche from the EU under the Ukraine Facility only in December, and not in November: EUR 4.1 bn (USD 4.4 bn equivalent), of which EUR 1.5 bn was a grant. Besides, almost USD 4.0 bn came via account of the World Bank: the first USD 1 bn came from the USA under the ERA mechanism, which is repaid at the expense of revenues from frozen russian assets, USD 465 m of budget support from the USA under PEACE, USD 1.1 bn in the form of a loan under the DPL (guaranteed by Japan and the UK) and USD 1.5 bn under Japanese guarantees.

In December, the volume of domestic government bond placement decreased from UAH 79 bn in November to UAH 59 bn in December. In total, in 2024, the Ministry of Finance placed government bonds in the amount of UAH 618 bn, repaid UAH 383 bn and paid a little more than UAH 200 bn in interest payments. Therefore, the deficit in 2024 was financed by international aid. It was below plan, since in the planned budget indicators the entire amount of international aid was recorded as financing (loans), while most of it came in the form of grants. Thus, in 2024, international aid amounted to USD 41.7 bn (equivalent), of which USD 12.6 bn came in the form of grants.

Figure 5: Funding and grants received by the state budget, 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".
Source: Ministry of Finance

2025: In 2025, the largest amount of funding is expected to come from the ERA mechanism, which collectively provides USD 50 bn in assistance from G7. Part of this assistance will be used for military spending, so funding for non-defense needs will be lower.

The EU has already provided Ukraine with EUR 3 bn under the ERA in January. The USA already transferred USD 20 bn to the account of the World Bank, which guarantees their accessibility, even if the policy of the new president changes (USD 1 bn was paid in December). In particular, USD 15 bn of the US contribution will be spent within the framework of the PEACE project to cover the salaries of teachers, civil servants, doctors and employees of the State Emergency Service, as well as a number of social benefits

However, in the absence or significant reduction of US military aid, other ERA member countries may be forced to additionally finance Ukraine's military purchases.

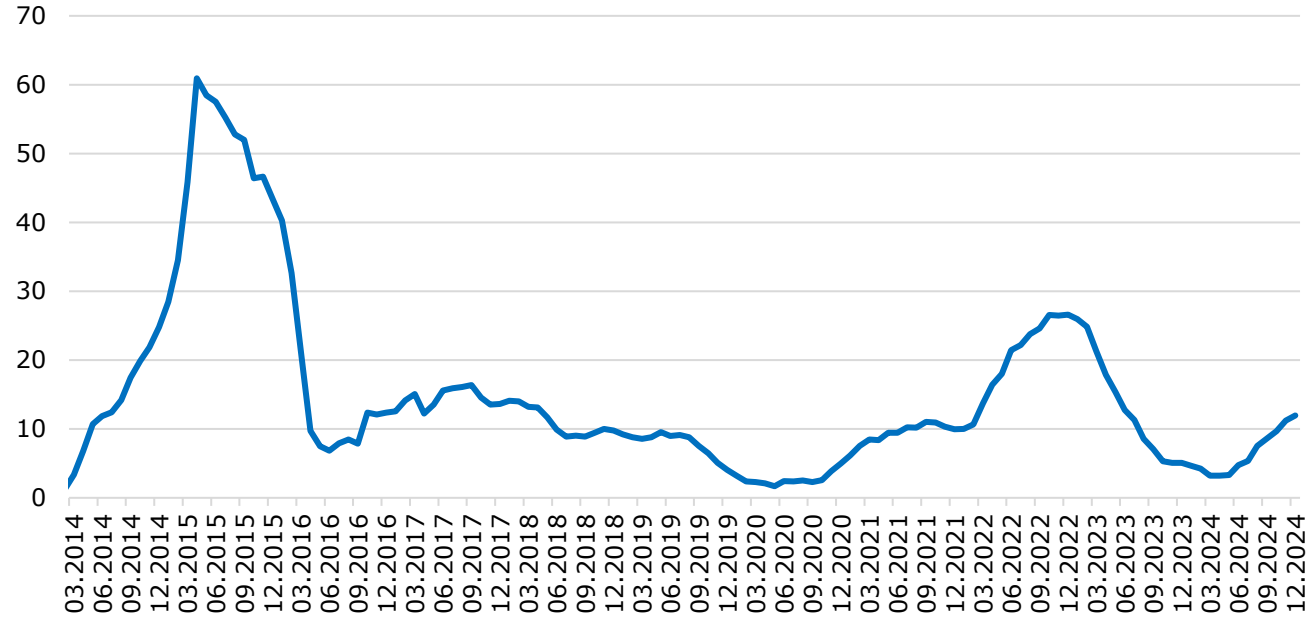
It is also expected that Ukraine will receive USD 12.5 bn under the Ukraine Facility, subject to the timely implementation of all indicators of the Plan of Ukraine. Financing from the IMF should amount to USD 2.7 bn provided that all structural criteria are met.

At the same time, the government will have to save international aid in 2025, since the already agreed funding for 2026 remains very low. Therefore, discussions about using frozen russian assets (and not just profits from them) to help Ukraine after 2025 should continue.

Inflation: Consumer inflation reached 12% yoy

In December, inflation once again accelerated in annual terms. This time it reached 12% yoy. The rise in prices in 2024 primarily reflected higher costs for manufacturers and retail chains, a worse harvest this year, and probably some recovery in trade margins amid higher consumer demand. The most noticeable was the increase in food prices: of those groups of goods, the prices of which are published by the State Statistics Service, only meat, lard, sugar and alcohol rose in price by less than 10% over the year. Prices for some vegetables, including potatoes, cabbage and carrots, increased by 2-3 times (by an average of 48% yoy). This is due to the lower harvests, rising costs, higher demand and higher export prices.

Figure 6: Consumer price inflation, % year-on-year



Source: State Statistics Service

However, prices for services also increased significantly against the backdrop of rising labor and energy costs. Here, too, the price increase for most services exceeded 10% or was close to 10%, with the exception of services whose prices are regulated by the state. Prices for non-food products increased less despite the high share of imports and the depreciation of the hryvnia against the dollar by more than 10%. This likely reflected high competition with still limited demand, including due to an increase in the share of online purchases.

In monthly terms, inflation slowed to 1.4% mom, which was the lowest figure in the last four months. However, in the 17 months from April 2023 to August 2024, monthly inflation exceeded 1% mom only once due to a sharp increase in the electricity tariff. A certain slowdown in monthly inflation primarily reflects a smaller increase in vegetable prices and a decline in egg prices after a sharp increase in previous months. Also, traditionally in December, prices for winter clothes and shoes decreased. However, the growth in prices for other goods and services mainly continued due to the factors we discussed above.

Monetary Policy and Exchange Rate: Rate Rises, Hryvnia Weakens

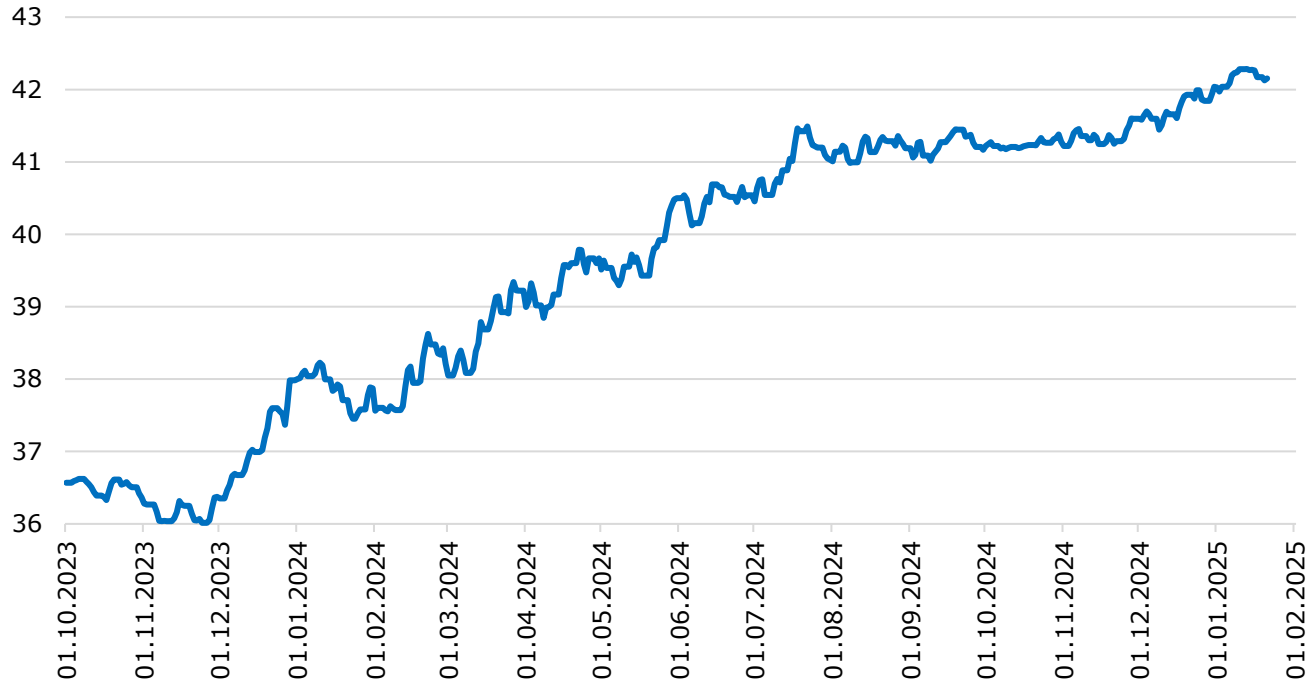
Monetary policy. The published results of the discussion on the recent policy rate hike to 13.5% per annum (as we wrote about in the previous issue of MEMU) show that the opinions of the members of the NBU Monetary Committee on the response to the acceleration of inflation diverged. Most members of the committee supported a moderate increase in the rate by 0.5 percentage points, in particular due to the signs of a slowdown in consumer demand. Two participants of the discussion supported a more decisive step to raise the rate by 1 percentage point. However, two more members of the committee were optimistic and spoke in favor of keeping the rate unchanged despite higher-than-forecast inflation and the NBU's previous signals about a likely rate hike. Opinions differed on the future path of interest rates until the end of the year, although most were inclined to continue raising rates at the next meetings. This indicates significant uncertainty about the NBU's future steps.

Exchange rate. In December and the first half of January, the hryvnia gradually weakened against the US dollar: from UAH 41.6 per USD in early December to UAH 42.1-42.3 per USD in mid-January. This reflected strong demand for dollars due to an increase in imports and other external payments in December and a slowdown in export earnings. Demand for foreign currency was supported by high budget expenditures in December. The NBU kept the exchange rate from moving more due to record interventions and spent more than USD 5.3 bn in December to support the exchange rate, and in the first half of January (January 2-16) it spent approximately USD 2.3 bn.

The NBU's international reserves reached USD 43.8 bn at the end of 2024 from USD 39.9 bn despite high interventions. In December, the Government attracted net USD 9.1 bn from donors, including

from the EU, the United States and the IMF. However, these inflows are designed to cover the needs of the Government not only for December, but also for the next few months. Therefore, in the coming months, the NBU's reserves are likely to be smaller, but they will remain at a safe level.

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. USA.
Source: NBU

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