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Resume

- According to the IER, real GDP growth slowed down from 1.1% yoy in October to 0.7% yoy in November due to the impact of russia's shelling of Ukrainian energy and industrial infrastructure.
- In November and the first half of December, there were several massive attacks on the energy system of Ukraine. The technical capacity of electricity imports increased from 1700 to 2100 MW.
- Due to the approach of the frontline, Metinvest stopped the operation of the coal site near Pokrovsk, which was the main source of coking coal for metallurgy.
- In November, the seaports of Ukraine handled 7.6 m t of cargo (-6% mom and +13% yoy).
- Ukrzaliznytsia transported 14 m t of cargo in November (-7% mom and -1% yoy).
- Exports slightly decreased in November to USD 3.6 bn against the background of a decline in the production of metallurgical products.
- The President finally signed amendments to the Tax Code of Ukraine, which came into force only in December (originally planned in October).
- Revenues from the CPT and the grant from the USA contributed to the growth of revenues in November.
- All important decisions have been made for Ukraine to receive funds under the ERA (Extraordinary Revenue Acceleration Loan) mechanism in the amount of USD 50 bn from the Group of Seven.
- In November, inflation exceeded 11% yoy due to a significant rise in the price of a number of food products in October and November.
- Hryvnia weakened slightly against the dollar due to a seasonal increase in demand for foreign currency.
- The NBU raised the key policy rate to 13.5% per annum due to the rapid acceleration of inflation.

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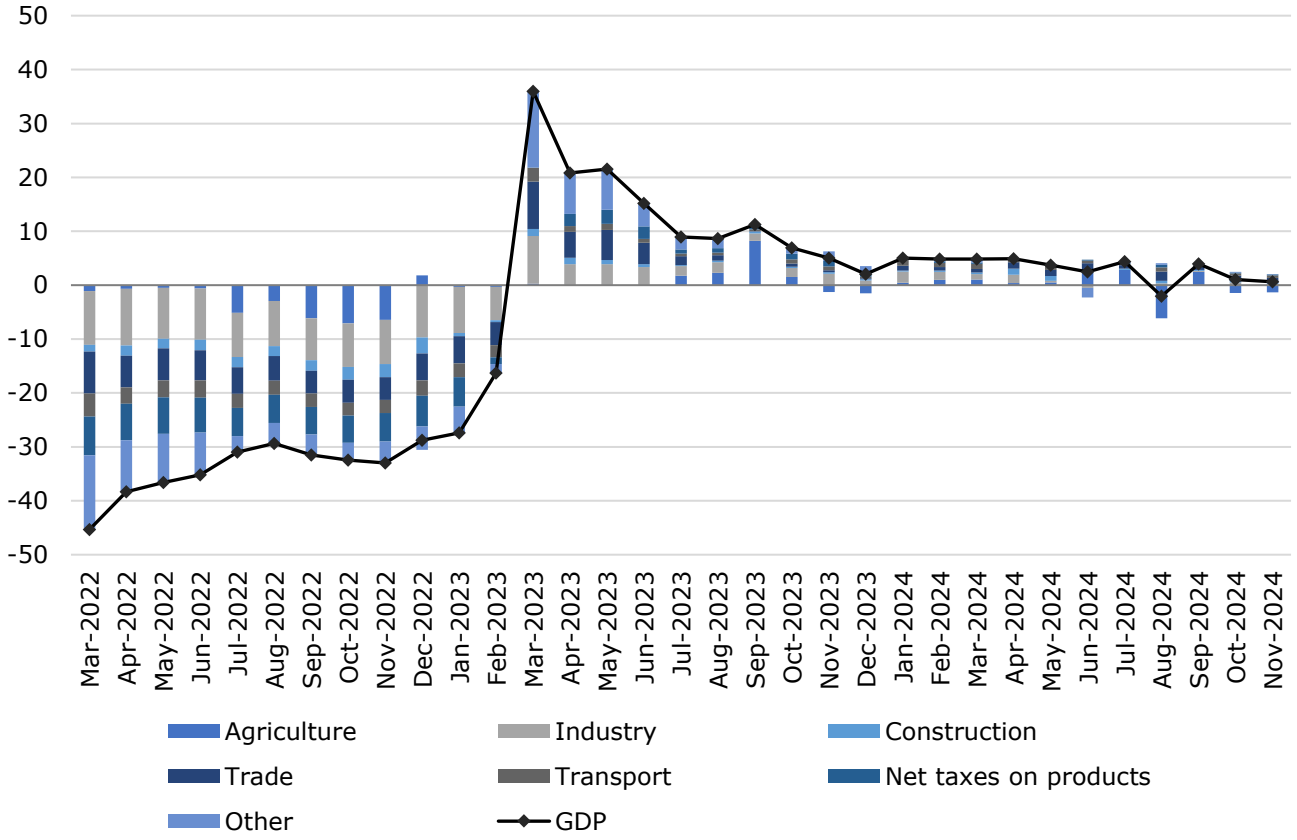
GDP and the real sector: Further slowdown in GDP growth

According to the IER estimate, real GDP growth slowed down from 1.1% yoy in October to 0.7% yoy in November due to the impact of russia's shelling of Ukrainian energy and industrial infrastructure. Massive attacks led to the return of substantial planned and emergency power outages, which affected both industrial enterprises and the population. At the same time, the resilience of businesses was supported by the possibility of importing electricity and the launch of own decentralized electricity generation capacities by enterprises. The enterprises partially financed investments in their own energy independence thanks to programs of banks and the state, which provide for a lower credit rate. Electricity production was estimated to decline by 5.9% yoy in November with renewables partially offset the drop. Real gross value added (GVA) in the manufacturing increased by 4.7% yoy compared to 5.2% yoy in October. The extractive industry is estimated to remain at the level of November 2023 due to an increase in oil and gas production, which compensated for a drop in coal and iron ore production.

In agriculture, according to the Ministry of Agrarian Policy, the harvested crops in November were smaller than last year's figures because of a reduction in the corn harvest due to lower yields and faster harvesting in previous months. At the same time, the harvest of beets and oilseeds was close to last year's. However, the situation in livestock production worsened slightly. According to the IER estimate, real GVA in agriculture decreased by 7% yoy in November, which is slightly less than 8% yoy drop in October.

Real GVA in trade, according to our estimate, continued to grow - by 5.6% yoy in November against 6.2% yoy in October - due to higher wage revenues, which stimulated retail trade, although wholesale trade recovered more slowly. The real GVA in transport is estimated to have increased by 8% yoy, but the sector was negatively affected by russian shelling of ports and railway infrastructure on the approach to them. On the other hand, the lack of blocking of the border by Polish protesters supported the development of transport.

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



Source: IER estimate

Labor shortages remain one of the key obstacles to business operations. This requires further efforts from the government in the field of training and retraining of the unemployed, as well as assistance to internally displaced persons in finding work and housing.

Energy: russia continues massive attacks on the Ukrainian energy system

Electricity. On December 13, another massive russian attack on Ukraine's energy infrastructure took place. The Burshtyn TPP was damaged, Energoatom reduced the output of five out of nine nuclear power units in Ukraine, and Ukrenergo introduced emergency power outages for half of consumers throughout Ukraine. Prior to that, on December 3, substations in Rivne and Ternopil were under attack, and on November 28, three nuclear power plants (Khmelnytska, Rivnenska and Pivdennoukrainska NPPs) reduced electricity production through attacks. Objects in Volyn, Khmelnytskyi, Lviv, Rivne, Ternopil and Ivano-Frankivsk regions were also attacked. Shelling also took place on November 16-17. However, after the attack, the electricity deficit in the power system did not increase significantly, and under favorable weather conditions on some days there was no need to disconnect household consumers.

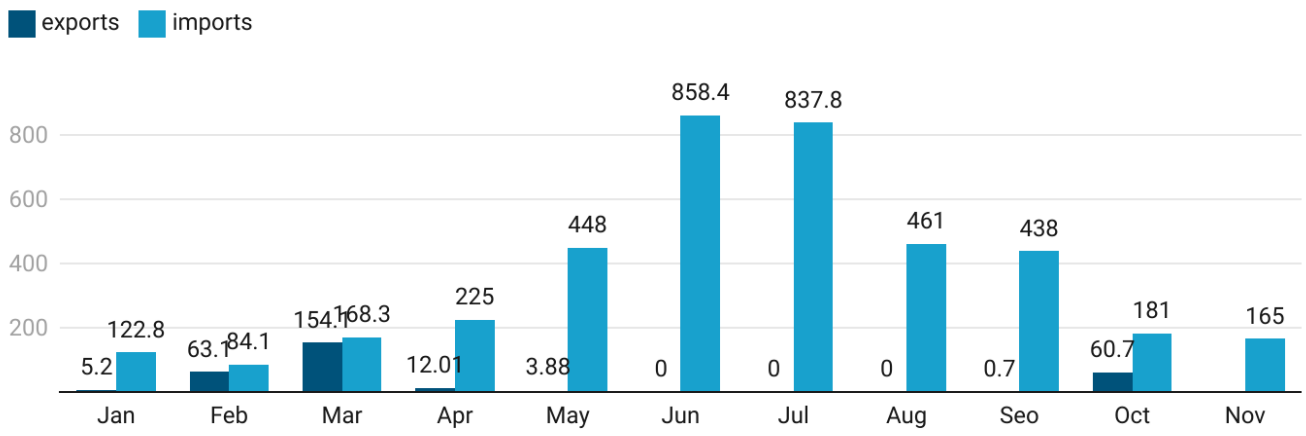
The Ministry of Energy has changed the procedure for drawing up and applying power outage schedules. As before, schedules are drawn up in the amount of at least 75% of the maximum electricity consumption from 8:00 to 22:00 on a regular day, that is, critical consumption that cannot be turned off is allowed to be attributed to 25% of consumption. They are distributed in six equal queues and, according to the new rules, into 12 sub-queues, which will reduce "excessive" power outages. As before, the maximum one-time duration of a power outage during the application of schedules cannot exceed seven hours. There should also be a guaranteed power supply for 1.5-2 hours, depending on the time it takes to switch from one queue to another (for automated networks, it is 5-10 minutes, but a maximum of 30 minutes).

In addition, there have been changes in the conditions for industrial consumers not to disconnect from electricity when it is imported or independently produced. If earlier it was necessary to import or produce 80% of the total volume of own consumption, then at the end of November this figure was reduced to 60%. Disconnection of such consumers is allowed only in case of special emergency power outages or operation of power system protection automation.

Since December 1, the technical capabilities for importing electricity to Ukraine have increased to 2100 MW. In November, electricity imports decreased by 9.4% mom to 165 thousand MWh. The largest share in the structure of imports in November was occupied by Slovakia, with 33%, Poland was in second place, with 25%.

The Cabinet of Ministers has formed a new composition of the Supervisory Board of Ukrenergo, including four independent members and three representatives of the state. The supervisory board stopped working after two of the three authorized independent members of the board submitted applications for early termination of their powers against the background of the dismissal of Volodymyr Kudrytskyi from the post of head of Ukrenergo on August 30.

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. On November 28, russia attacked Naftogaz facilities, primarily gas storage facilities. According to the company, the shelling did not affect the work. According to experts, the purpose of the attack

was to scare European companies and reduce the storage of European gas in Ukrainian storage facilities.

Ukrgasvydobuvannya and Ukrnafta produced 1.2 bn cubic meters (bcm) of gas in November, and a total of 13.5 bcm of commercial natural gas were produced by Naftogaz Group in 11 months of 2024.

Gas consumption in November increased by 6% yoy due to increased demand for electricity production and a cold snap. Daily gas consumption in Ukraine exceeded 100 m cubic meters per day. Taking into account short-term re-export from underground gas storage facilities (UGS), which can reach up to 10 m cubic meters per day, this requires withdrawal from underground gas storage facilities up to 60 m cubic meters per day.

Coal. Metinvest Group has suspended the operation of the coal site in the village of Pishchane near Pokrovsk (vertical shaft No. 3 of the Pokrovske Mine Administration). Personnel and their families were evacuated due to the approaching frontline and increased shelling. Other key facilities of the mine continue to operate. This site provided about 50% of the mine's total coal production. The Pokrovske Mine Administration is the only source of coal for coke production in Ukraine, which, in turn, is used for steel production.

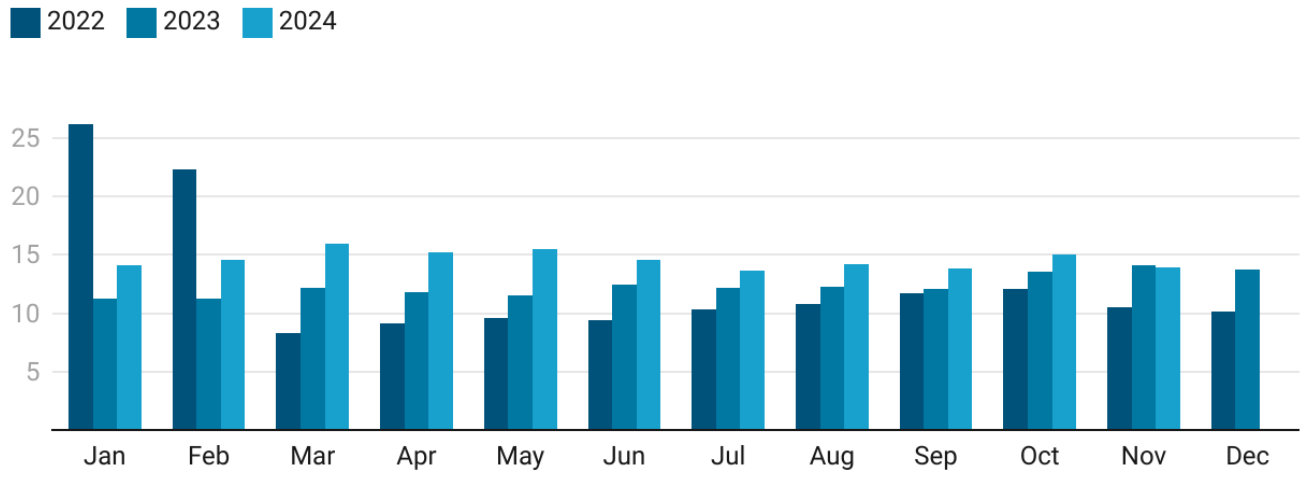
Transport: cargo transportation fell slightly in November

Sea transport. In November, Ukrainian seaports handled 7.6 m t of cargo (-6% mom and +13% yoy). In total, for 11 months of the year, Ukrainian seaports handled 89.9 m t of cargo (+70% yoy). The bulk of cargo turnover during this period was grain (56.1 m t) and ore cargoes (16.7 m t). The growth was ensured by the expansion of grain exports and the resumption of exports of ore and metallurgical products from ports near Odesa.

In January-November 2024, 73.4 m t of cargo were transported through the Ukrainian corridor, including 6.5 m t in November. During the operation of the Ukrainian sea corridor, more than three thousand ships passed through it. Accordingly, 16.5 m t of cargo were handled through the ports of the Danube cluster in 11 months of 2024. For comparison, in 12 months of 2023, 32 m t were transshipped through these ports.

Rail transport. Ukrzaliznytsia transported 14 m t of cargo in November, which is 7% less than in October and 1% less than in November 2023 due to a decrease in physical export volumes after the peak in October. Export traffic to the western border in October amounted to 2.3 m t, -11% mom. Transportation in the direction of seaports amounted to 4.1 m t (a drop of 10.5% mom). Mostly, the railway transported to ports and the border grain and flour (2.6 m t), ores (2.3 m t) and building materials (0.4 m t).

Figure 3: Transportation of goods by rail, million tons



Source: Ukrzaliznytsia

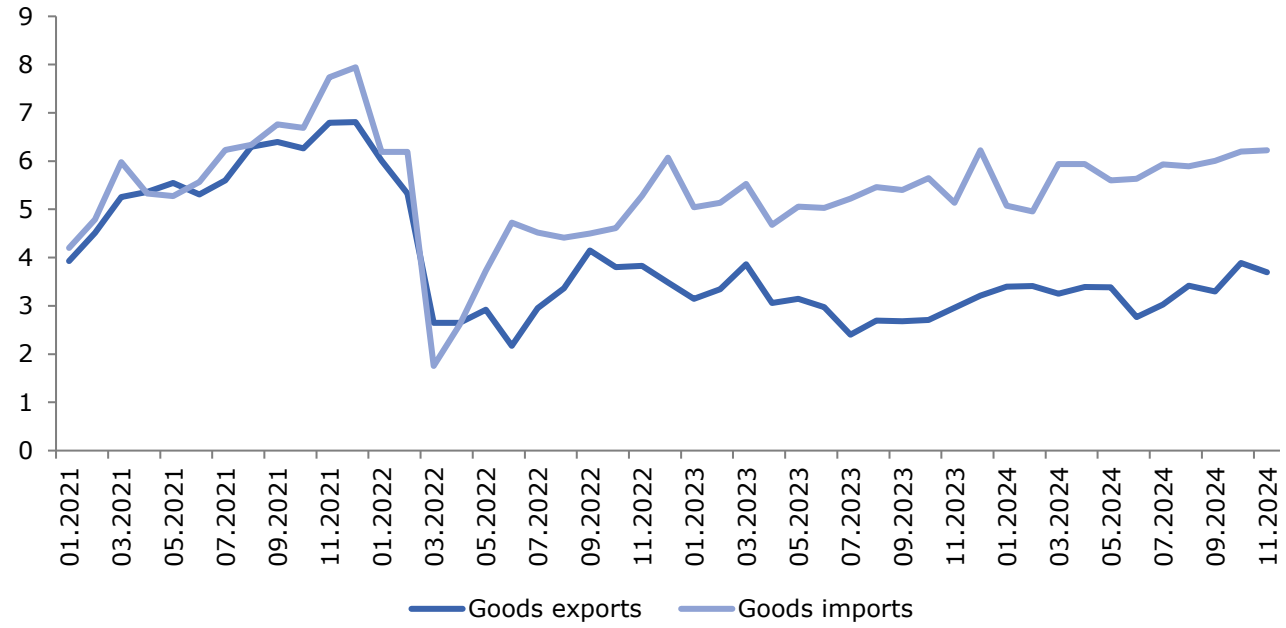
Road transport. On Saturday and Sunday, November 23 and 24, Polish farmers blocked the Medyka-Shehyni checkpoint on the border with Ukraine. They demanded that the Polish government

keep the level of agricultural tax in 2024 at the level of 2023 and protested the signing by the European Union of a free trade agreement with the South American countries MERCOSUR. They did not allow trucks coming from Ukraine to pass. At the same time, trucks traveling from Poland to Ukraine were allowed to pass one per hour. The farmers' strike ended on November 24.

Foreign trade: Trade volumes fell slightly compared to October

Exports of goods in November decreased slightly compared to this year's record figures in October to USD 3.70 bn. In particular, the export of agricultural products decreased to USD 2.31 bn compared to USD 2.42 bn Highin October. Increase in corn exports and higher export prices for sunflower oil were not enough to offset lower exports of early crops. Exports of other agricultural products (primarily livestock and food products) also fell slightly.

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



Source: State Customs Service of Ukraine

Exports of metallurgical products decreased to USD 315 m in November, which was the lowest figure this year. Steel mills note low prices for their products against the backdrop of high costs. Exports of semi-finished steel and rolled products fell sharply, which was partially offset by an increase in pig iron exports. Exports of mineral products increased slightly against the background of rising export prices for iron ore. Exports of engineering products and other industrial goods decreased slightly in November, although they remained at a high level.

Imports of goods in November remained almost unchanged compared to October and amounted to USD 6.22 bn. Imports of machinery and equipment decreased slightly to USD 2.25 bn: imports of energy equipment and trucks, among others, slightly decreased. Imports of chemical products and other industrial products also decreased. Imports of petroleum products remained almost unchanged, as the price decline mainly compensated for the increase in volumes. Fuel export volume was among the largest since the beginning of the year.

Fiscal policy: Revenues from the CPT and the US grant contributed to the increase in revenues

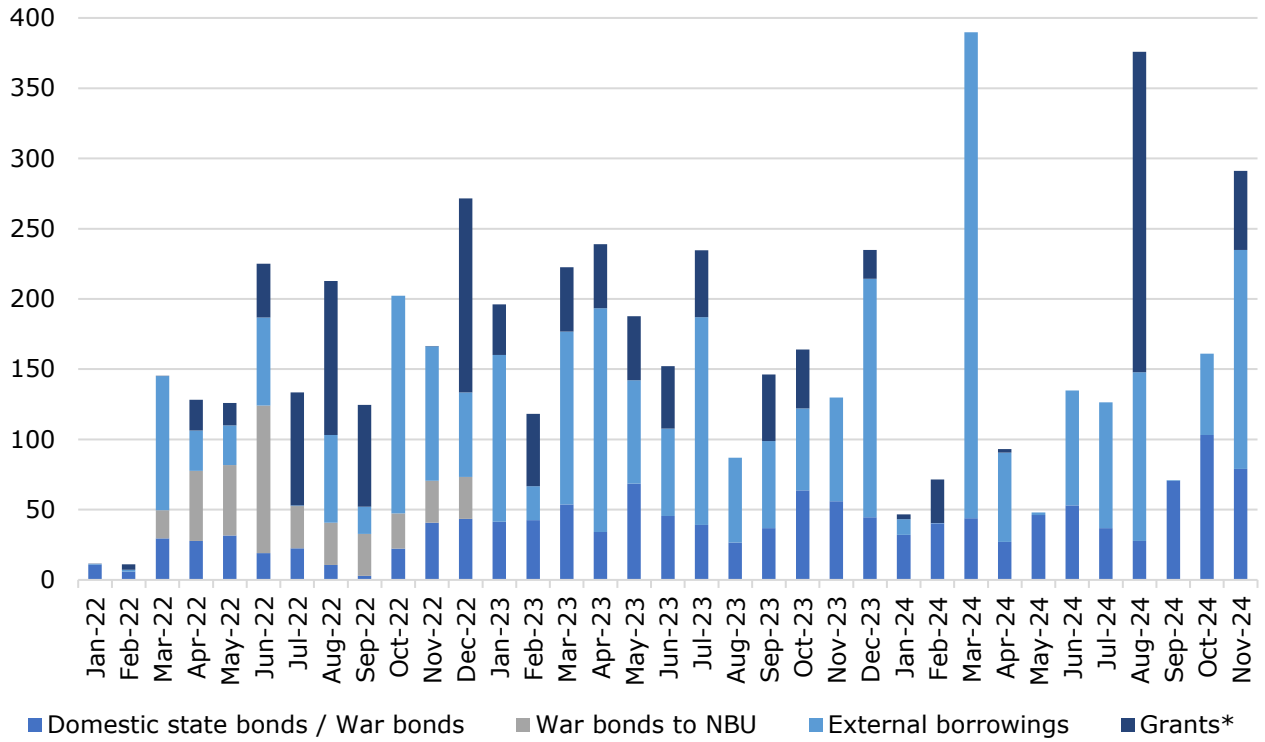
In November, State budget revenues increased to UAH 302 bn, which significantly exceeds UAH 179 bn in October. The growth was explained by the planned quarterly receipt of corporate profit tax (CPT) and the US grant. CPT revenues amounted to UAH 44.3 bn, which is 4.9% more than in August. Overall, revenues from CPT in the third quarter were 5.2% higher than in the second quarter and 42.6% higher than in the same period in 2023, primarily due to higher profits in the banking sector. A grant from the USA in the amount of USD 1.6 bn (equivalent to UAH 56 bn) also made a significant contribution to revenue growth, as grants are included in budget revenues.

The President signed amendments to the Tax Code, which provide for an increase in a number of taxes, primarily the military tax, only at the end of November (the changes were adopted in mid-October), and therefore they came into force in December. Therefore, the revenues were not replenished with the expected resource from this law, which, according to the plan, was initially supposed to come into force in October.

Revenues to the general fund of the state budget in November amounted to UAH 220 bn, which exceeds UAH 129 bn in October. Domestic VAT increased by 9% yoy, but decreased by 10.1% yoy. VAT refunds remained at the level of October (UAH 15 bn), but increased by 52% yoy due to higher exports this year. VAT on imports increased by 17% yoy, but decreased by 5% yoy. The plan of the State Tax Service was fulfilled by 102.4%, while the plan of the State Customs Service (SCS) was fulfilled only by 78.7%. The SCS explains the failure to implement the plan primarily by the tax exemptions for energy equipment introduced in the summer. At the same time, it seems that the plan was also somewhat optimistic (in particular, the exchange rate remains stronger than originally assumed in the planned budget indicators).

Expenditures of the general fund of the state budget in November amounted to UAH 340 bn, exceeding the indicators of previous months (UAH 314 bn in October and UAH 249 bn in September). However, actual expenditures were about 7% lower than planned. In December, record volumes of expenditures are expected, which is traditional for Ukraine.

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

In November, Ukraine received USD 4.8 bn from the World Bank under the SPUR IDA program, using a US grant of USD 1.6 bn as a reserves for the credit, that the World Bank should formulate to reduce risks. This is a unique operation, as evidenced by the ability of the Ministry of Finance to effectively manage public debt. This helped partially cover the fiscal deficit, which remained high due to a delay in the allocation of EUR 4.1 bn from the Ukraine Facility. Thus, the money from the EU came only on December 18, as Ukraine did not fulfil on time one of the indicators of the Ukraine Plan (namely indicator 4.4 "Entry into force of amendments to the Criminal Code and the Criminal Procedure Code", which was supposed to be implemented by the end of the third quarter, but was actually implemented on the last day of October). The delay is also due to the lack of a mechanism adopted by the European Commission for the provision of partial tranches under the Ukraine Facility in the event that Ukraine does not meet all indicators.

The placement of domestic government bonds remained quite high at UAH 79 bn, of which 27% were benchmark bonds. This indicates the effectiveness of coordination of monetary and fiscal policies and increased transparency of communication between the Ministry of Finance and the NBU.

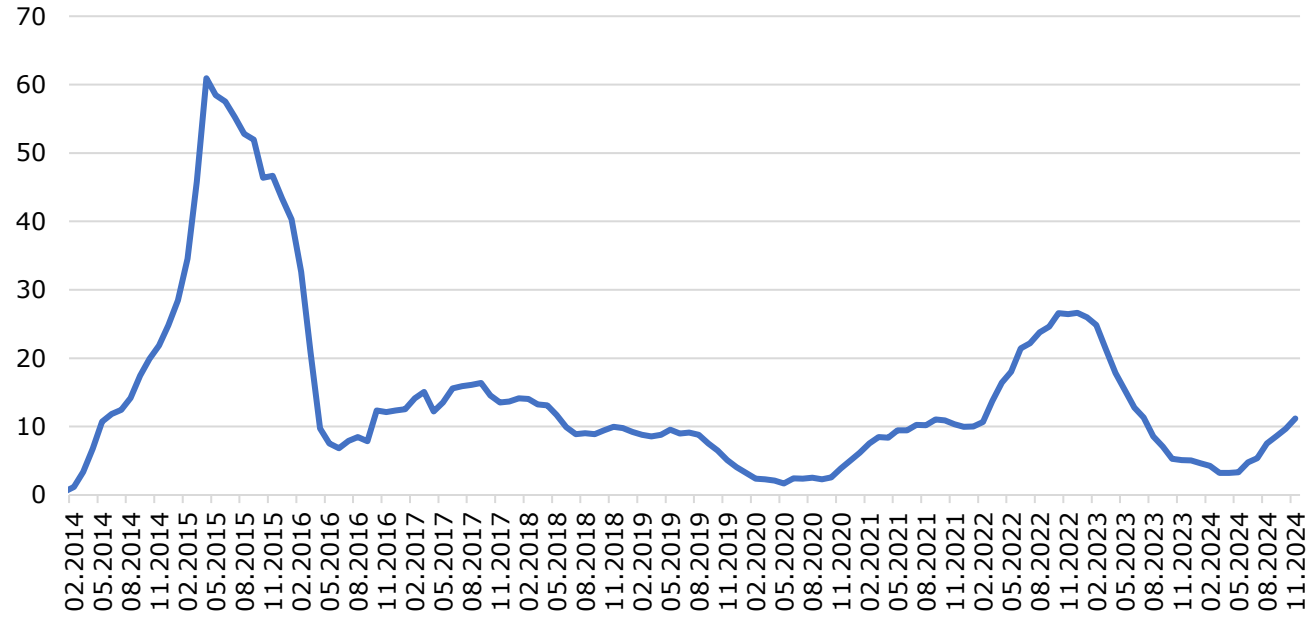
The government has started the payment of UAH 1000 for each Ukrainian, which was initiated by the President in October. Funding is provided by the State Unemployment Insurance Fund and the redirection of part of the funding from the humanitarian demining program. At the same time, the economic justification of these programs is questionable, since it does not provide targeted assistance to poorer segments of the population. In January 2025, the government launches the "Nutrition in Schools" program, similar to the European ones, but also with dubious economic justification, because again, this program lacks targeting.

Financing of the state budget in 2025 under the ERA (Extraordinary Revenue Acceleration Loan) mechanism has become more certain. Thus, the USA has already transferred its contribution of USD 20 bn to the World Bank, which adds certainty about its availability for Ukraine. Ukraine also ratified an agreement with the EU on macro-financial assistance (MFA) under the ERA in the amount of up to EUR 35 bn. The ERA mechanism provides that Ukraine receives loans that will not need to be repaid at the expense of budget funds, because their repayment must take place at the expense of profits from frozen Russian assets, which the EU will transfer to Ukraine. For the operation of this mechanism, the Verkhovna Rada adopted amendments to the Budget Code, which provide for a mechanism of contingent liabilities for the implementation of transactions under the ERA. However, challenges and risks remain high as because in parallel with the allocation of ERA funds, funding for military support for Ukraine may decrease. While some of the ERA funds can be used for military needs, the total amount of assistance may not be enough to fund all needs. There is also a lack of clarity on external financing after 2026.

Inflation: Consumer inflation exceeded 11% yoy

In November, annual inflation, after a break of 15 months, returned to double digits and reached 11.2% yoy. Inflation has accelerated every month since May. The acceleration of inflation in recent months was primarily due to a sharp increase in prices for several food products in October and November. The food price index increased by 7.4% in November compared to September: at the same time, in two months, prices for milk, cheese and eggs increased by an average of almost 18%, and prices for vegetables surged by more than 34%. Prices for these products have risen due to a decline in supply and a gradual increase in demand as well as an increase in producer costs.

Figure 6: Consumer price inflation, % yoy



Source: State Statistics Service

Inflation in the medium term also accelerated due to a recovery in consumer demand, rising global prices for several agricultural products, and export prices for Ukrainian exporters. Costs of

manufacturers and retail chains also increased due to higher salaries, the weakening of the hryvnia against the dollar in previous months.

In November, the monthly growth of consumer prices reached 1.9% mom. As we mentioned above, the price of eggs has risen sharply (by almost 55% mom), vegetables, including prices for carrots, potatoes (15% mom) and beets, apples, and dairy products have also risen significantly in price (by 4-6% mom). The increase in prices for other goods and services was more moderate and on average did not exceed 1% mom. In particular, the prices of appliances (household appliances, smartphones and laptops) did not increase on average: probably due to significant competition for the still limited demand for this type of goods.

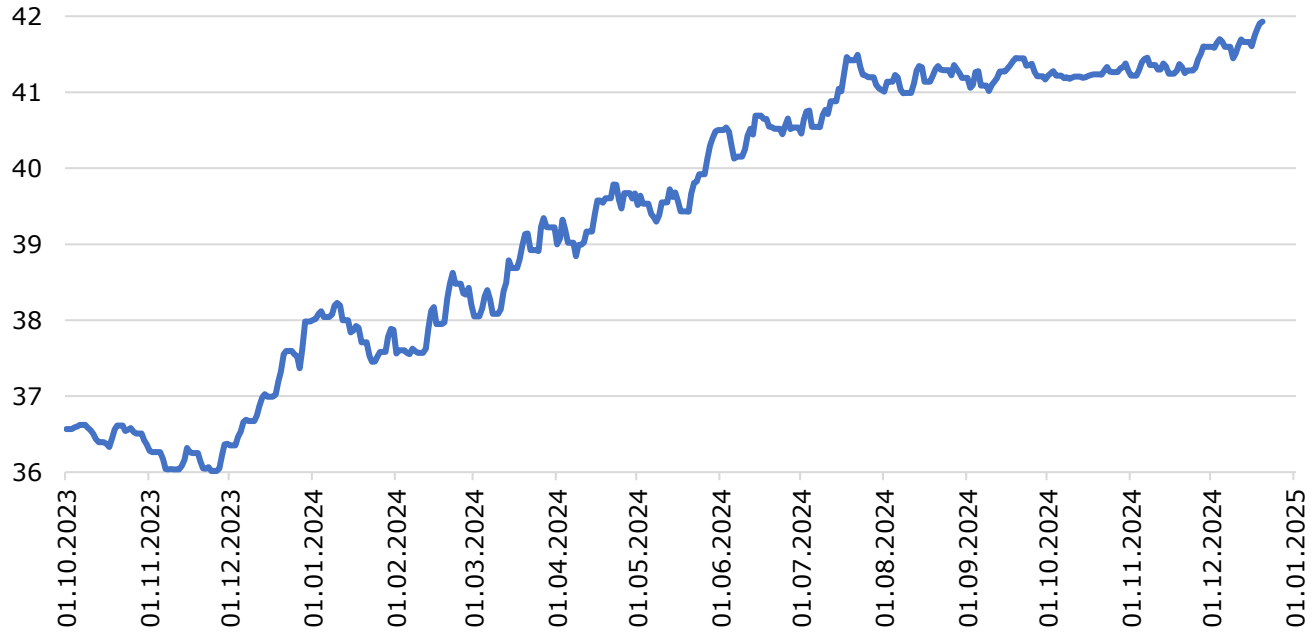
Monetary Policy and Exchange Rate: Rate Rises, Hryvnia Weakens

Monetary policy. After the December meeting of the Monetary Policy Committee, the NBU raised the key policy rate to 13.5% per annum. Thus, the NBU showed its readiness to return to the policy rate increases as inflation accelerated beyond previous forecasts. Until recently it has hoped to keep the rate at 13% per annum. The NBU reacted rather cautiously to the acceleration of inflation because inflation partly reflects temporary factors and therefore it was not ready to sharply increase the cost of lending in the economy and the cost of government borrowing. However, the NBU promised further rate hikes if inflation does not decline.

Exchange rate. At the end of November, the exchange rate of the hryvnia for the first time exceeded 41.5 UAH per US dollar and after that fluctuated in the range of 41.5-42.0 UAH per dollar. Prior to that, for more than 4 months, the hryvnia exchange rate remained in the range of 41.0-41.5 UAH per dollar. Hryvnia weakened likely due to seasonal increase in demand for foreign currency from corporates and sustained high demand from individuals. NBU contained depreciation by increasing FX sales. Over three weeks (November 25 to December 13), the NBU's interventions reached USD 2.56 bn, which was the highest figure in the second half of the year.

The NBU's international reserves returned to USD 39.9 bn by the end of November after a decline in previous months. In November, net donor inflows reached new high point at USD 6.2 bn, primarily due to a one-time receipt of funds from the United States. At the same time, the NBU spent only USD 2.7 bn on interventions to balance private demand for foreign currency in November (the above-mentioned increase in interventions occurred mainly in December). Due to this, reserves remain at a safe level and, according to the NBU, they will be able to cover 5 months of future imports.

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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