INSTITUTE
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Monthly Economic Monitoring of Ukraine

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Executive Summary

- According to IER, GDP in the third quarter of 2024 grew by 2.1% yoy after growing by 3.7% yoy in the second quarter.
- Estimates of monthly real GDP growth were volatile in the third quarter due to differences in harvesting rates.
- Problems with access to electricity and labor shortages continue to be among the biggest obstacles to companies' operations, according to a business survey conducted by the IER.
- Energoatom has completed the repair campaign, nine power units are operating.
- Natural gas reserves in Ukrainian underground gas storage facilities reached 12.5 bn cubic meters.
- During the operation of the Ukrainian Sea Corridor, it transported 75 m tons of cargo.
- September imports of goods reached USD 6 bn, while exports declined from August level.
- In September, the government did not receive grants from international partners, and external borrowing was minimal.
- The new plan for tax revenues and borrowings to the State Budget in 2024 looks too optimistic.
- The situation with the financing of the State Budget in 2025 has improved due to the preliminary decision of the EU Council to provide EUR 35 bn in emergency macro-financial assistance.
- In September, inflation reached 8.6% yoy due to higher producer costs, low harvest and higher global agricultural commodity prices.
- Since the second half of July, the hryvnia has remained in the range of 41.0-41.5 UAH per US dollar, but the demand for foreign currency has increased in recent weeks.

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GDP and Real Sector: Real GDP growth is estimated at 2.1% yoy in the second quarter

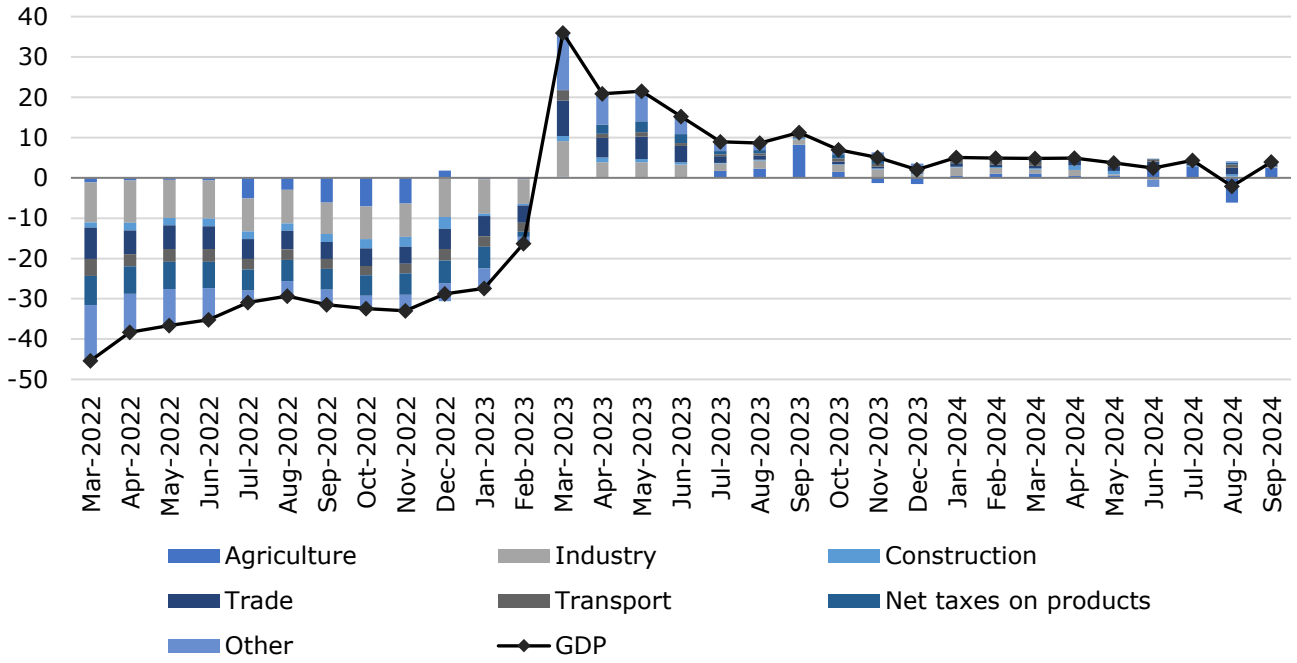
According to IER estimates, GDP grew by 4.0% yoy (year-on-year) in September after declining by 2.1% yoy in August. For comparison, real GDP grew by 4.4% yoy in July. This volatility is explained by differences in the dynamics of harvests of early crops in 2024. In July, gross value added (GVA) in agriculture increased rapidly, then it sharply declined in August, but grew again in September due to more favourable weather than a year ago.

According to the Ministry of Agrarian Policy, the harvest gathered in September this year was significantly higher than in September 2023, when rains delayed the collection. Agricultural producers harvested nearly five times more corn and significantly increased the collection of oilseeds. Overall, according to preliminary data, approximately 17.4 m tons of oilseeds and grains were harvested in September, which, according to our estimate, is 76% higher than the figures for September 2023. In our assessment, the situation in livestock has not changed significantly, and on average, the sector maintained a slight growth. As a result, according to the IER's estimate, the real gross value added (GVA) in the sector increased by 24% yoy. Overall in the third quarter, the real GVA in the sector grew by more than 9% yoy. However, we expect a decline in GVA in the sector in the fourth quarter.

In our assessment, the situation in other sectors has not changed significantly. More reliable electricity supply, due to the absence of scheduled outages, contributed to the performance of the manufacturing. This primarily concerns the development of SMEs, mainly due to the high cost of generator-produced electricity compared to other expenses of these enterprises. At the same time, there were emergency outages caused by russian shelling, which mainly affected large enterprises, particularly in the Dnipropetrovsk oblast. Demand for products in most industries remained unchanged. According to the IER business survey, the shortage of labor is becoming an increasingly important impediment for businesses across all industries. Overall, according to the IER's estimate, real GVA in the manufacturing grew by 6.0% yoy in September and 4.8% yoy in the third quarter.

At the same time, russian shelling and the proximity of the frontline to Pokrovsk negatively affected the performance of the extractive industry, whose real GVA was estimated to increase by only 0.4% yoy.

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



Source: IER assessment

The rapid growth of wages and the already ongoing full-scale war contribute to the further rapid growth of retail trade. At the same time, wholesale trade, although growing, is growing at a very moderate pace. Therefore, according to our estimates, the growth of real GVA in trade amounted to 6% yoy in September.

Real GVA in transport is estimated to have increased by 10% yoy, which is quite close to August. In particular, Ukrzaliznytsia continued to show high growth rates of transportation compared to 2023. Compared to August, transshipment through the Danube ports increased. The absence of border blockades and the growth of trade contributed to the development of road transport.

Overall, real GDP growth is estimated at 2.1% yoy in the third quarter, slower than in the second quarter (the Ukrstat published an estimate of real GDP in the second quarter and indicators of industry and several other sectors for the first half of the year). Our second-quarter growth estimate was 3.9% yoy, which is very close to the Ukrstat's estimate of 3.7% yoy. However, we slightly misjudged the growth rate of the manufacturing industry: it grew faster than we had estimated.

Energy: Business is preparing for winter blackouts

Electricity. Energoatom has completed the repair campaign on October 9, 11 days earlier than planned. Energoatom has switched on the last (ninth) power unit of the nuclear power plant out of scheduled preventive maintenance.

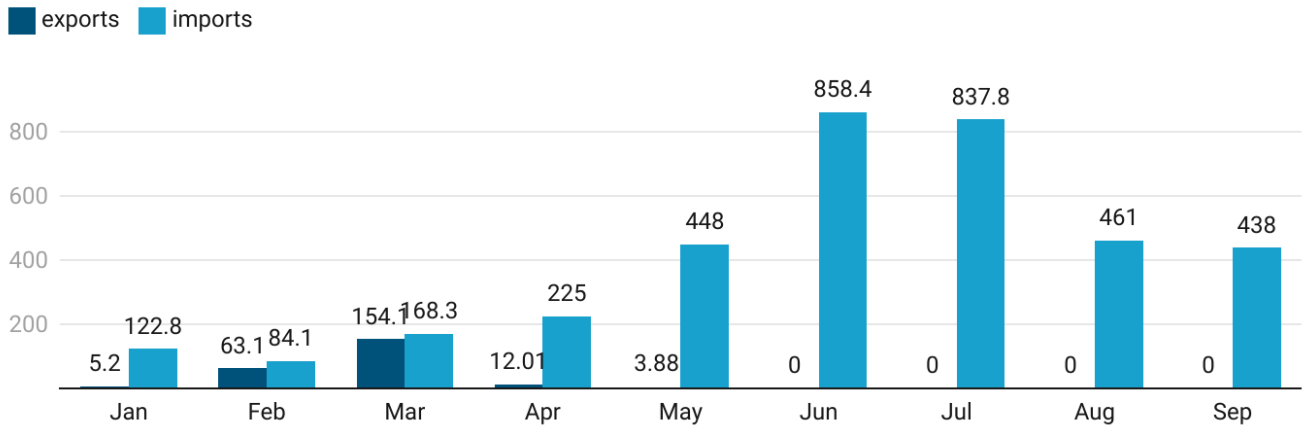
Ukrenergo states that the estimated lack of capacity in the power system is 1000-1500 MW in case of short-term frosts of 10-15°C. Ukraine expects an increase in the interstate electricity exchange to 2000-2200 MW from the current 1700 MW.

In September, Ukraine reduced electricity imports by 7.5% mom to 438 thous. MWh. Imports decreased from all countries except Poland. In September, 86.1 thous. MWh were delivered from Poland, which is 78% more than in August. As before, the largest share in the electricity imports belongs to Hungary (35%), the share of Slovakia is 24.5%.

The Government has allocated an additional EUR 86 mn loan from the European Investment Bank for the construction of protection systems around energy facilities.

Businesses are preparing for winter blackouts. Thus, Nova Poshta purchased 4 thousand generators for USD 13 mn to provide themselves with electricity during blackouts. Metinvest has contracted gas turbine stations with a capacity of more than 30 MW for USD 36 mn which should be installed at the group's enterprises in November. The company has also already installed 50 MW of generation in case of emergencies. The investment company BGV Group Management is building more than 50 MW of gas cogeneration units in Rivne. The equipment will operate in a combined mode and will ensure the production of both electric and thermal energy.

Figure 2: Electricity exports and imports in 2024, thousand MWh



Source: ExPro Consulting

In Ukraine, guarantees of origin of "green" energy began to be issued. The first recipient was Ukrhydroenergo, having received guarantees for 96,441 MWh. Guarantees are proof that the electricity has been produced from renewable sources. This will enable the company to sell electricity to businesses that are focused on the transition to clean energy sources and adhere to the principles of the ESG (Environmental, Social, Governance) strategy. According to the forecasts of the Ukrainian Energy Exchange, the annual supply of guarantees of origin in the form of electricity production from renewable energy sources will be about 10 mn MWh.

Gas. As of the beginning of October, Ukraine's gas companies produce 53 mn cubic meters of gas daily, of which 43-44 mn cubic meters are the share of Naftogaz. This year, the company has

increased production by 7%. According to Oleksii Chernyshov, Chairman of the Board of Naftogaz, district heating companies will be able to receive enough gas to get through the winter. As of October 4, natural gas reserves in Ukrainian underground gas storage facilities (UGSF) reached 12.5 bn cubic meters.

Coal. In January-September of this year, DTEK commissioned 16 new coal longwalls, and plans to commission nine more by the end of the year. Since the beginning of the full-scale invasion, DTEK has invested almost UAH 18 bn in coal mining. The investments were directed to the construction and repair of capital mine workings, the completion of coal longwalls, the equipping of mines with tunneling equipment, underground mine transport and projects to support production facilities.

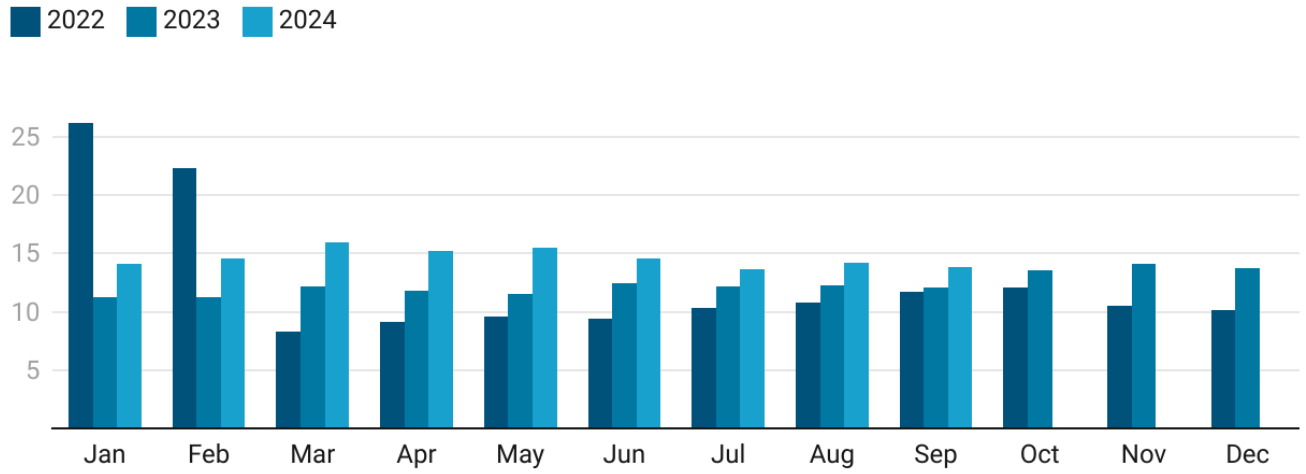
Transport: Russia hits ports

Maritime transport. At the beginning of October, there were several Russian attacks on Ukrainian ports. Port facilities, ships, trucks were damaged, and people were killed. In total, over the past three months, Russian troops have carried out almost 60 attacks on Ukraine's port infrastructure. They resulted in the damage and destruction of almost 300 port infrastructure facilities, 177 vehicles and 22 civilian vessels, and 79 civilians were injured. As a result of russian strikes on Ukrainian port infrastructure, the price of ship insurance increased by 33%.

During the operation of the Ukrainian Sea Corridor, it transported 75 mn tons of cargo, of which 50.1 mn tons of grain. In January-September, Ukrainian seaports handled 74 mn tons of cargo, which is 1.6 times more than in 2023. In September, 7 mn tons were processed (+3% mom).

Rail transport. Ukrzaliznytsia transported 13.8 mn tons of cargo in September, which is 2% less than in August and 15% more than in September 2023. Export traffic to the western border in September amounted to 2.3 mn tons, a decrease of 10% mom. Transportation in the direction of seaports amounted to 3.9 mn tons (a drop of 3.6% mom). Most of all ores were transported to ports and the border (2.36 mn tons), grain and flour (2.29 mn tons) and ferrous metals (0.49 mn tons). In September, Ukrzaliznytsia carried 2.2 mn passengers. The most popular route was train #128 Zaporizhzhya - Lviv, which carried more than 50 thousand passengers in September.

Figure 3: Transportation of goods by rail, m tons



Source: Ukrzaliznytsia

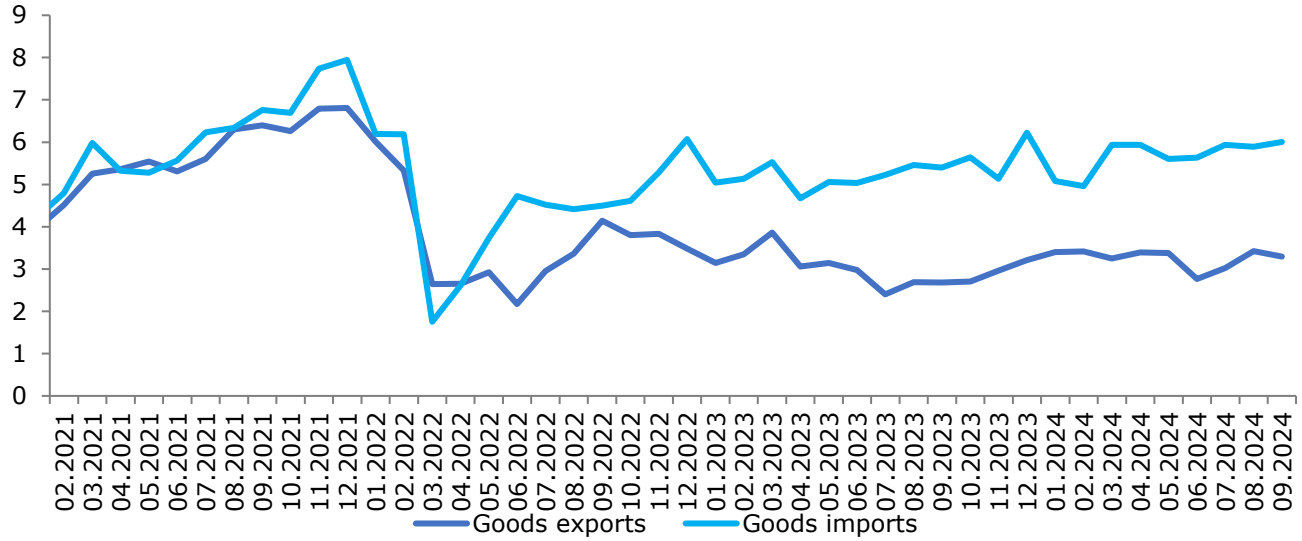
Road transport. Ukraine has received 1000 permits for freight transportation from Turkey to or from third countries, which covers the need for permits by the end of the year. Domestic carriers can continue to carry out bilateral and transit transportation between Ukraine and Turkey without permits due to the liberalization of freight transportation between the two countries. In total, Turkey issues 3500 permits to Ukraine per year.

Foreign Trade: Exports Decreased and Imports Increased

Exports of goods in September amounted to USD 3.26 bn. and slightly decreased from USD 3.42 bn. in August. In particular, exports of agricultural products decreased to USD 1.83 вт. compared to USD 1.91 bn In August. Wheat exports remained at a high level and the export of sunflower oil began to recover, probably due to the new harvest. At the same time, the export of rapeseed, the

harvesting of which ended in early August, began to decline. Corn exports continued to fall despite a fairly active harvesting of the new crop in September.

Figure 4: Trade in goods of Ukraine, 2021-2024, USD bn



Source: State Customs Service of Ukraine

Exports of metallurgy products reached USD 447 m. in September, which is close to the level of August (USD 438 m), but significantly higher than in the previous months of the year (USD 361 m on average in January-July). In September, exports of semi-finished steel products and rolled products increased. Exports of mineral products continued to fall and in September were the lowest this year due to a drop in the volume and price of iron ore exports. Exports of other products did not change significantly

Imports of goods in September reached USD 6.00 bn, the highest figure this year. Prior to that, monthly imports in September exceeded USD 6 bn in 2021 alone (although such a comparison does not take into account the significant decrease in the purchasing power of the dollar in recent years). Imports of machinery and equipment reached USD 2.16 bn in September, the highest since 2021 (with the same caveat about US inflation). Imports of industrial equipment increased, while imports of energy equipment remained high. Fuel imports fell after an increase in excise taxes from September 1, probably due to inventories made in August. Also, the seasonal increase in food imports began earlier than usual, possibly due to a lower harvest of fruits and vegetables this year and the planned increase in excise taxes on tobacco products (which are usually counted among food products).

Fiscal policy: Taxes will not be significantly changed

In September, the State Budget revenues amounted to UAH 232 bn after UAH 448 bn in August, when record grants in the amount of UAH 228 bn were received (there were no grants in September). Due to grants, revenues in September were also lower than in September 2023. At the same time, other revenues grew. Thus, higher bank profits and a higher tax rate are the main reasons for the growth of corporate income tax (CIT) revenues. Higher consumption contributed to the growth of gross VAT revenues on goods and services produced in Ukraine by 21% yoy, which is slightly slower than a month earlier. At the same time, the amount of VAT refunds was higher (UAH 13.8 bn compared to about UAH 12 bn on average for the first nine months of 2024), which had a negative impact on net budget revenues, but was positive for businesses. Although VAT revenues from imports were at a record level of UAH 40.2 bn, their growth rate continued to decelerate (16.4% yoy). The tax exemptions for imported goods required to operate during power outages introduced in July are one of the reasons for the under-execution of the revenue plan administered by the State Customs Service for September by 13.1%. Revenues administered by the State Tax Service were 4.8% higher than planned.

State budget expenditures in the amount of about UAH 360 bn were close to the level of August. Traditionally, more than half of the expenditures are on defense and security, the financing of which was increased by UAH 495 bn by the end of 2024 due to changes to the State Budget for 2024. As

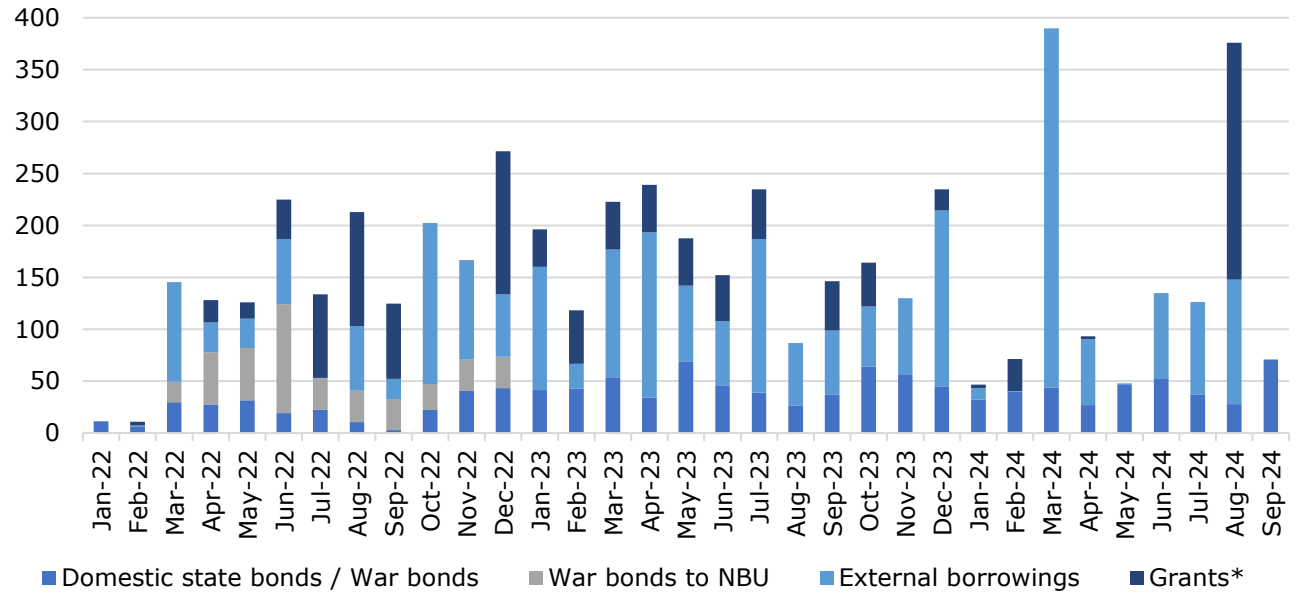
planned, these changes will be financed by over-execution of the tax revenue plan, higher than planned transfer of NBU's profit, changes to tax legislation, as well as significantly higher borrowing. At the same time, there are risks to receive the planned higher revenues and borrowings.

First of all, approved amendments to the Tax Code (TCU) bring less revenue than included in the amended State Budget. Thus, the adopted version of the law does not include a number of innovations that the government proposed in the summer in the initial version of the amendments to the Tax Code. The largest changes included in the version of the law voted by the parliament are the introduction of a military levy for private entrepreneurs working under simplified taxatoin (10% of the minimum wage for groups 1-2 of taxpayers under the simplified system, 1% of turnover for group 3), an increase in the military levy for employees from 1.5% to 5%, an increase in the CIT rate for banks from 25% to 50% and for financial companies from 18% to 25%. At the same time, the government and MPs did not agree to increase the VAT rate by several percentage points, although this would have contributed to additional budget revenues. A significant increase in the military levy for employees can be an additional motivation for employers to pay salaries informally (today, according to the Ministry of Economy, about 3.2 m people work informally). According to the Ministry of Finance, the approved amendments to the Tax Code should bring UAH 21.6 bn to the budget in 2024 and UAH 141 bn in 2025, while the draft amendments to the Tax Code submitted in the summer provided for additional revenues of UAH 120 bn in 2024 and UAH 340 bn in 2025. The tax changes have not yet been signed by the President, but it is envisaged that they will come into force retrospectively from October 1.

Another source of funding for additional expenditures should be borrowings on the domestic market: net additional placements of domestic government bonds by the end of the year should amount to UAH 216 bn. Given the amounts that have already been planned to be attracted to the budget, this means that the government has to borrow at least UAH 20-25 bn on the domestic market every week, which looks unlikely. Thus, in September, borrowings were already record-breaking, but amounted to UAH 70.5 bn in four auctions, which was partly due to the fact that 35% of bonds was denominated in foreign currency (and the demand for such securities is traditionally higher). Changes in the NBU's reserve requirements for banks are expected to contribute to higher borrowing: the share of reserves in the form of benchmark domestic government debt securities was increased to 60% from October 11, and two more types of securities were added to the list of benchmark domestic government bonds.

In September, there were almost no external borrowings. The next large inflows of international support are expected from the EU under the Ukraine Facility in the amount of EUR 4.1 bn approximately in November. USD 3.8 bn should also be received from the USA by the end of the year. Additional funding agreements have also been reached with Canada.

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



Note: * Grants are part of budget revenues, which are accounted for under the code 42000000 "Official transfers from the EU, foreign governments, international organizations, donor institutions".
Source: Ministry of Finance

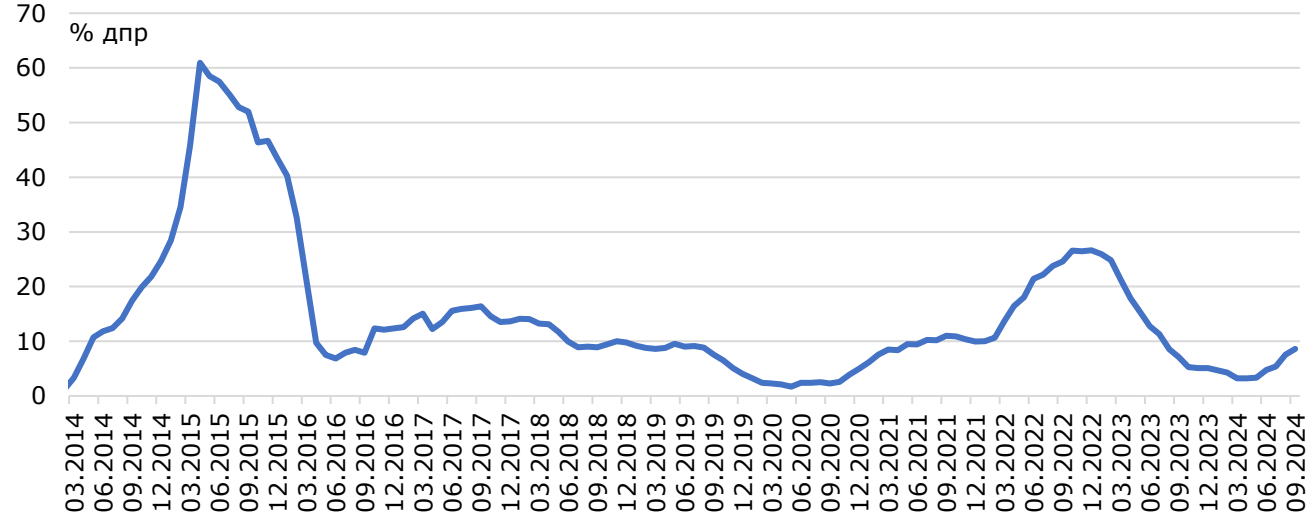
In general, the financing of budget expenditures until the end of 2024 contains many challenges, and the government may face the need not to finance certain expenditures if international aid is delayed. At the same time, the situation has slightly improved in terms of external financing of the State Budget in 2025. Thus, the EU Council preliminarily supported the proposal of the European Commission to provide Ukraine with EUR 35 bn in emergency macro-financial assistance. Ukraine and the EU will soon agree on conditionalities that will determine the provision of assistance, but the EU noted that they will be based on the existing Ukraine Plan and will provide for cooperation with the EU on the development of Ukraine's defense industry. This assistance is part of a package of the G7, which has agreed to provide Ukraine with USD 50 bn loans secured by frozen russian assets, the income from which should be the source of repayment of these loans. Accordingly, the EU's contribution could be less than EUR 35 bn if other partners make larger contributions. The EU said that the areas of use of aid will not be limited. Therefore, there is a risk that the receipt of the package will be used to reduce military aid packages from Ukraine's allies. As the loan will be fully disbursed by the end of 2025, the government may need to save money to finance 2026 spending. Currently, funding for 2026 is expected under the IMF program and Ukraine Plan, but it is not yet clear what additional funds the government will be able to raise, and the need for large amounts of external financing will remain.

Inflation: Consumer inflation is approaching 9%

Inflation accelerated again to 8.6% yoy in September compared to 3.3% yoy in May and 7.5% in August. As before, the main factors behind the acceleration of inflation were higher labor costs, energy costs (producer price index for energy increased by more than 48% yoy) and imports costs, lower supply of severaal food products due to a lower harvest, and a gradual recovery in consumer demand. Based on the State Statistics Service data, real retail turnover in the first half of 2024 was higher than in 2021, although changes in the sales structure and incomplete data reduce the reliability of such estimates. However, stabilization of the hryvnia exchange rate and reduction of power outages may reduce pressure on prices in the coming months.

In monthly terms, prices increased by 1.5% mom in September, which was the highest level in the last 12 months. In particular, food prices increased by 1.8% dpm against the background of the largest monthly increase in world prices for agricultural products over the past two years and a decrease in milk yields. There was also a seasonal increase in prices for clothing, footwear, and education. After deducting seasonal price increases, monthly inflation was about 1.1% mom.

Figure 6: Consumer price inflation



Source: State Statistics Service of Ukraine

Monetary policy and the exchange rate: The hryvnia exchange rate and the key policy rate did not change significantly

Monetary policy. The NBU left its key policy rate at 13% per annum during its September monetary policy meeting. This decision was expected against the backdrop of accelerating inflation in recent months and previous statements by the NBU. The NBU also increased reserve

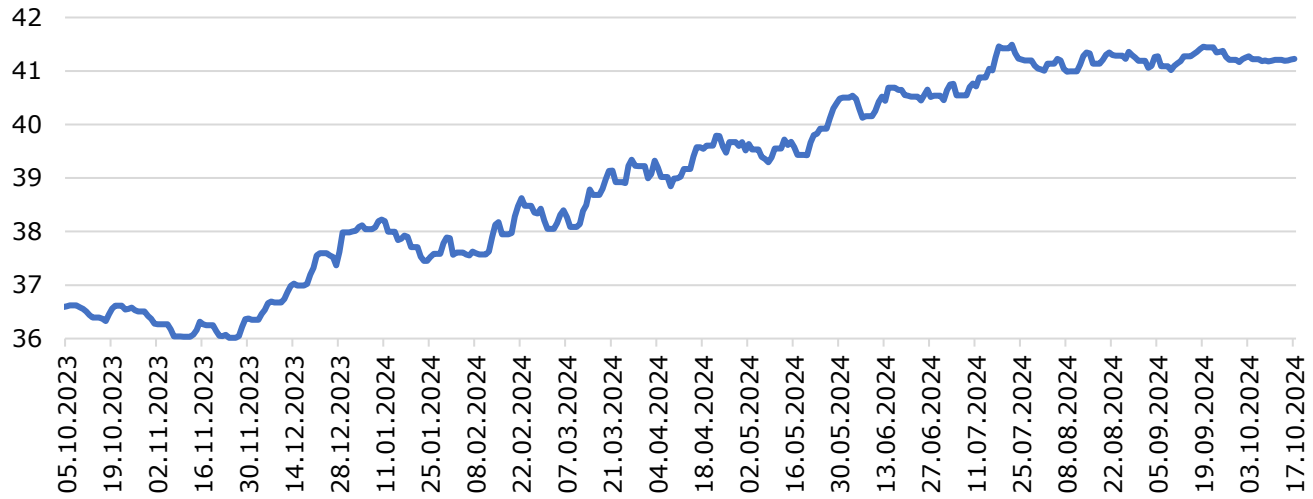
requirements for banks, but at the same time allowed a larger share of reserves to cover the benchmark of domestic government debt securities. As the NBU explained, this decision was made in order to increase the demand for government bonds, and should not alter monetary conditions.

In September, the NBU did not seriously consider raising the key policy rate. 10 out of 11 members of the Monetary Policy Committee did not forecast a change in the rate at the two remaining meetings scheduled for this year. However, the NBU may change its position after updating the economic forecast this month.

Exchange rate. For almost three months, the hryvnia has remained in the range of 41.0-41.5 UAH per US dollar. However, the NBU's interventions needed to balance supply and demand for private sector currency rose to $3.2 bn in the four weeks ended October 13. This was one of the highest figures this year. The foreign trade deficit widened in September, and the demand for cash foreign currency also increased over the past four weeks and reached almost USD 1.1 bn. United States.

The NBU's international reserves amounted to USD 38.9 bn at the end of September, compared to USD 37.2 bn at the end of July. After record inflows from donors in August, engagement in September was minimal. In August-and September, more than USD 8.5 bn was received from the EU, the US and other donors. At the same time, more than USD 1.9 bn was spent for servicing external debt and USD 5.9 bn on the NBU interventions in the FX market. According to the NBU, the reserves will be enough for 5 months of imports of goods and services.

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



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

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