INSTITUTE FOR ECONOMIC RESEARCH AND POLICY CONSULTING

# Monthly Economic Monitoring of Ukraine

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***Resume***

- Real GDP growth slowed down due to problems with access to electricity caused by the destruction of manoeuvrable electricity generation by Russian drones and missiles.
- Exports and imports continued growing due to better logistics through the Ukrainian sea corridor and road. Polish farmers and drivers stopped blocking borders at the end of April.
- In April, both the Tax and Customs Services over-executed the revenue plan. Moreover, the NBU transferred twice the planned profit to the budget.
- The European side approved the Ukraine Plan, which the government adopted to determine indicators for the Ukraine Facility. That approval will allow Ukraine to receive a EUR 1.9 bn loan from the EU in May. At the same time, the EU provided Ukraine with a EUR 1.5 bn loan in April, as the government fulfilled five indicators under the Ukraine Plan.
- The USA has finally approved an aid package for Ukraine, which includes USD 7.8 bn of budget support; however, the conditions and timing of the assistance are still unknown.
- As in March, annual consumer inflation amounted to 3.2% yoy in April.
- At the April monetary policy meeting, the NBU again reduced the key policy rate from 14.5% to 13.5% per annum.
- Over the past four weeks, the hryvnia exchange rate has stabilized in the UAH 39-40 per USD range.

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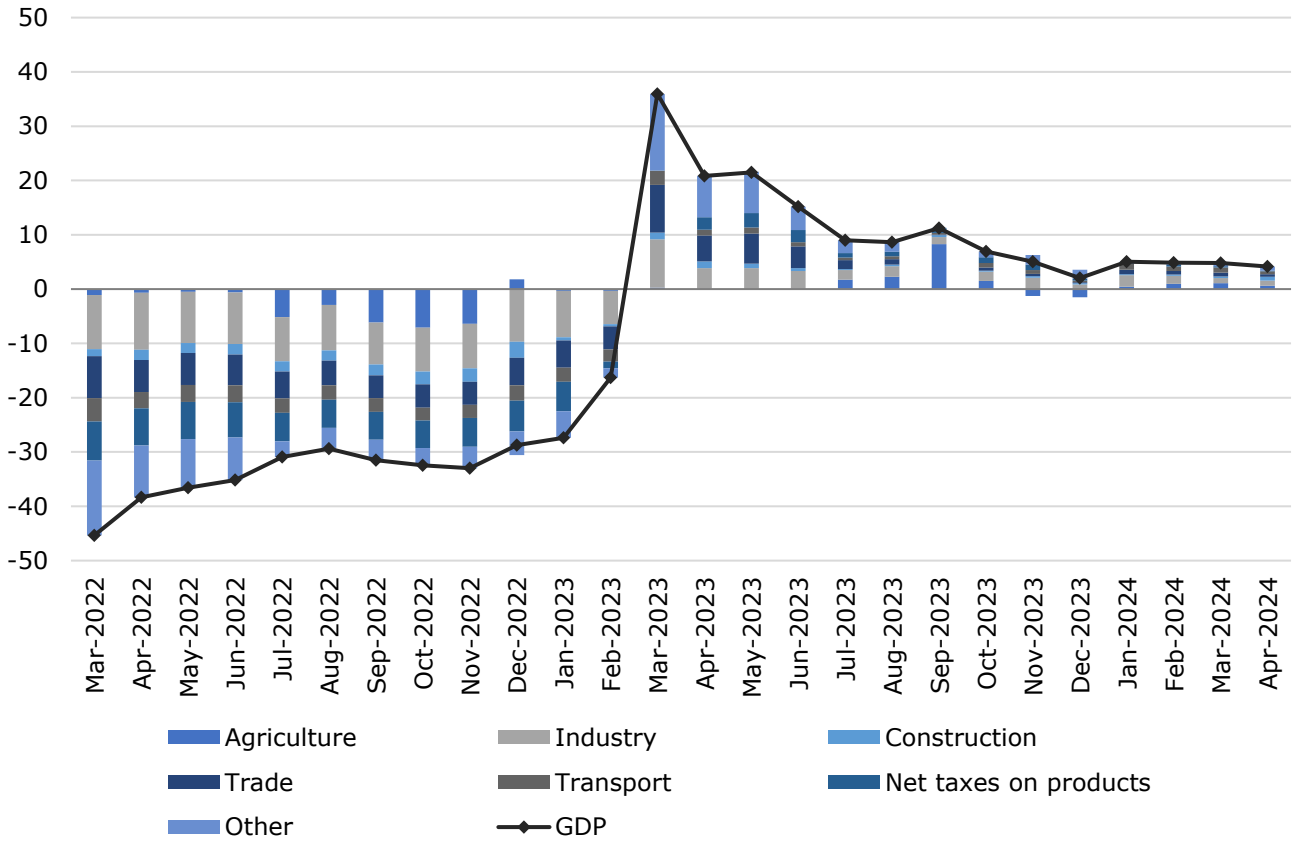
## GDP and Real Sector: Slowdown due to Problems with Electricity Generation

In April, local power outages continued, which affected the energy sector's performance and restrained manufacturing growth. At the same time, the impact of the further expansion of logistics through the Ukrainian Sea Corridor was positive. The Polish border blockade stopped at the end of April, contributing to more exports. The Ukrzaliznytsia continued to report high growth rates of transportation. IER estimates that real GDP in April increased by 4.1% yoy (compared to 4.8% yoy in March).

According to estimates, the growth of real gross value added (GVA) in manufacturing was at 10% yoy, while in the extractive industry, it was about 3% yoy. Better logistics contributed to the revival of metallurgy and iron ore extraction performance.

The growth rate of construction was high, partly due to the construction of fortifications. Trade growth slowed to 3% yoy on a higher statistical base. As before, agriculture indicators only reflect livestock, which is estimated to have increased by about 4% yoy.

***Figure 1: Contributions to real GDP, pp***




*Source: IER assessment supported by the USAID Competitive Economy Program in Ukraine*

In May, businesses first and then the population began to be cut off from electricity. That will have a negative impact on the GDP growth rate in the coming months as well.

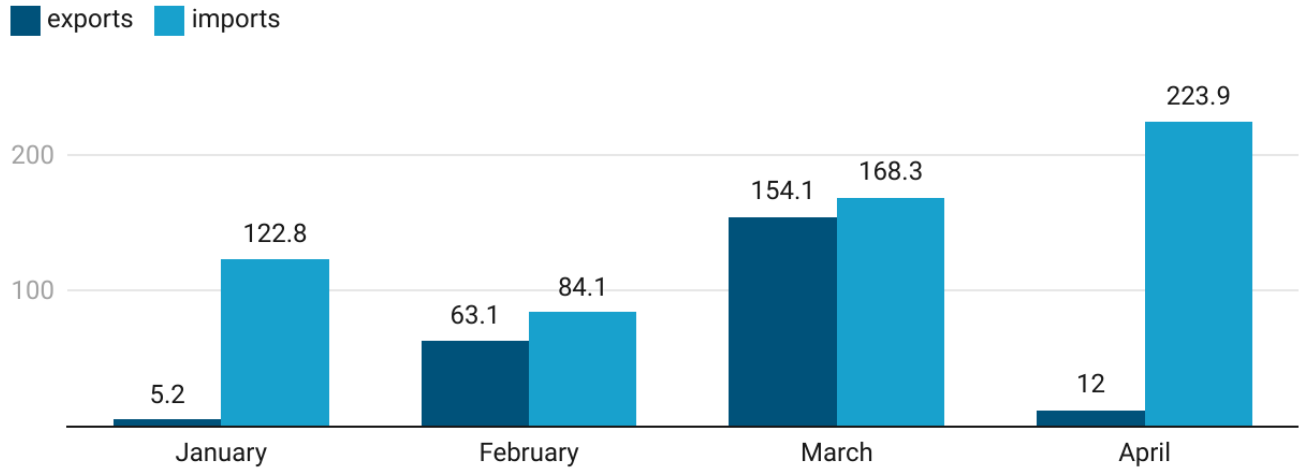
## Energy: Ukraine lacks electricity

***Electricity.*** Russia continues to destroy the energy sector systematically. The destruction of infrastructure has led first to restrictions in electricity supply to industry and from May 14 to the population, when Ukrenergo announced the introduction of emergency blackouts in all regions of Ukraine. According to Energy Minister Herman Galushchenko, the power system has lost about 8 GW of capacity over the past five large-scale Russian attacks. Two hydroelectric power plants were decommissioned due to the attack on May 8. In addition to the limited use of thermal and hydroelectric power plants, Ukraine received record imports and emergency assistance from EU countries to balance the domestic energy system. Despite this, even at night, when consumption volumes are the lowest, Ukrenergo imposes restrictions on industry. These restrictions indicate a lack of domestic generation to cover even the night consumption against expensive and limited imports.

As agreed within the framework of ENTSO-E, Ukraine can import up to 1.7 GW of electricity, but often, this quota is not fully used due to the unplanned nature of requests and high prices. In April, Ukraine imported 223.9 thousand MWh and exported 12 thousand MWh. Ukraine's state-owned energy trader, Energy Company, has resumed targeted electricity imports for industrial consumers. Enterprises that purchase imported electricity are not subject to planned restrictions on energy supply in Ukraine.

The future situation with electricity supply will depend on consumer behaviour, imports, the pace of recovery, and possible new attacks. In addition, several units of nuclear power plants are expected to undergo scheduled repairs in the summer. In May, Ukraine received more than 600 tons of aid from energy equipment – generators, transformers, wires, cables, pipes, etc. At the same time, such assistance is insufficient to restore electricity generation, destroyed by Russian drones and missiles.

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




*Source: DixiGroup*

***Gas.*** Ukrgasvydobuvannya has launched two new high-rate wells with a total capacity of 142 m cubic meters of gas per year. Since the beginning of the year, the company has already commissioned seven new high-rate wells, and in 2023, it launched 86 new wells.

On May 8, the Russians once again attacked an underground gas storage facility in the Stryi district of the Lviv region. This gas storage facility is essential for gas transit to the EU and the storage of gas by European consumers. In this way, the Russians are trying to compromise the reliability of Ukrainian gas storage facilities in the eyes of European customers who stored gas in Ukraine last winter.

***Coal.*** As a result of the destruction of coal-fired thermal power plants (TPPs) by the Russians, Ukrainian mines have lost the primary consumers of their products. Usually, a significant amount of coal is burned in the summer, when NPP units are repaired, and thermal power plants support the operation of the power system. According to former Minister of Energy Olha Buslavets (April-November 2020), as of the end of April 2024, the warehouses of Ukrainian TPPs and combined heat and power plants (CHPPs) had accumulated more than 1.6 m tons of coal, a significant amount for this period. The Lviv Territorial Organization of the Trade Union of Coal Industry Workers stated that Lvivvuhillya may stop operations due to the destruction of the Trypilska TPP.

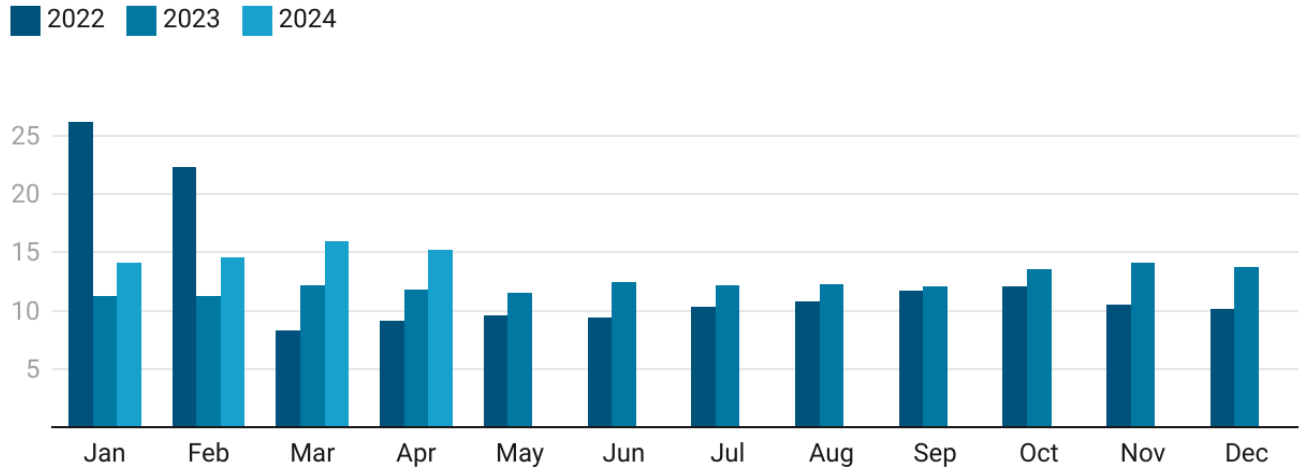
## Transport: Polish farmers have stopped blocking the border for trucks

***Maritime transport.*** The cargo turnover of operating seaports of Ukraine, including the Danube seaports, in April 2024 amounted to 10 m tons, almost twice as much as in April 2023. In April, 7.7 m tons were exported through the Ukrainian sea corridor, of which 5.1 m tons were agricultural products. For almost nine months of operation of the Ukrainian Sea Corridor, nearly 1600 vessels exported 45 m tons of cargo from the ports of Greater Odesa.

Russia continues to destroy Ukraine's port infrastructure: on April 19, a ballistic missile destroyed ten oil storage tanks in the port of Pivdennyi. The vegetable oil transshipment terminal and other production equipment were damaged.

***Rail transport.*** Ukrzaliznytsia transported 15.2 m tons of cargo in April, 5% less than in March and 29% more than in April 2023. The volume of transportation in the direction of the western border and ports amounted to 7 m tons (a drop of 14% mom). The main cargo was grain (3 m tons), iron and manganese ore (2.6 m tons), and ferrous metals (0.4 m tons). In total, in January-April 2024, 30.4 m tons of cargo were transported by rail in the direction of the western border and ports (an increase of 49% yoy). Also, in April, 8.43 m passengers used the railway for international travel (a rise of 25% yoy).

***Figure 3: Transportation of goods by rail, m tons***




*Source: Ukrzaliznytsia*

***Road transport.*** On April 29, at the Hrebenne-Rava-Ruska checkpoint, Polish farmers stopped blocking the movement of trucks through border checkpoints. Earlier, on April 20, Shehyni-Medyka and Krakivets-Korczova were unblocked, and on April 22 – Yahodyn-Dorohusk. After unblocking the border, Poland and Ukraine plan to exchange data on the transit of agricultural products to control the situation.

May marked one year since the introduction of the electronic queue eCherha for trucks at all checkpoints. During this time, 900,000 trucks crossed the border, of which 487,000 crossed the Polish border. Over 100 thousand users from different countries have registered in the eCherha system.

From April 24, the bus registration service to book a time slot for crossing the border with Moldova became available, and from May 10 - with Romania. The service covers ten checkpoints on the Moldovan border and four on the Romanian border. Subsequently, the service will be extended to all checkpoints.

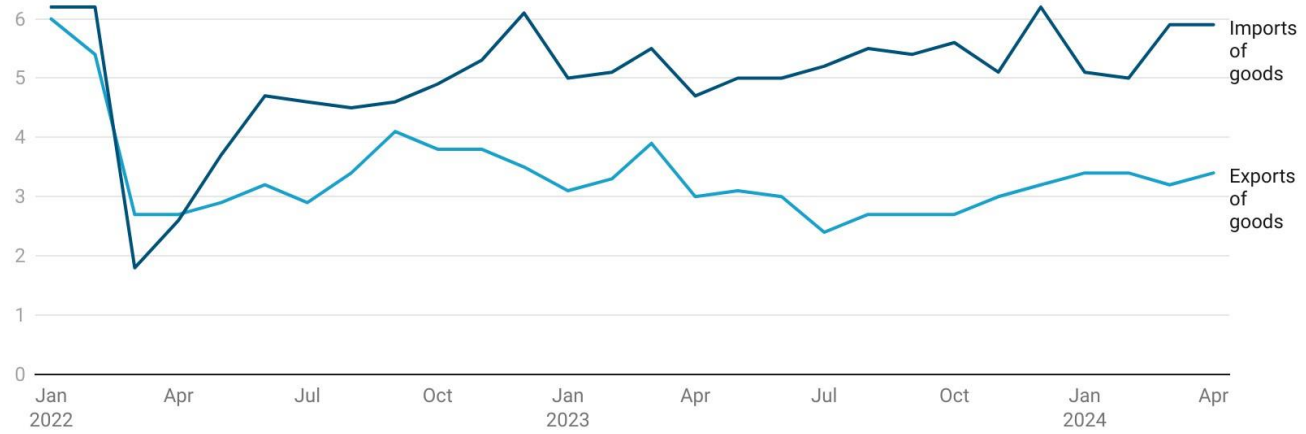
## Foreign trade: Goods exports grew in April against a low statistical base last year

According to the State Customs Service, in April 2024, exports of goods amounted to USD 3.4 bn, 12% higher than the monthly export figure a year ago. The main reason was a sharp decline in exports in April 2023 due to the decision of Poland and several other neighbouring countries to ban the import of a significant part of agricultural products to these markets.

In general, in the first four months of 2024, Ukraine exported goods worth USD 13.5 bn, equal to last year's figures. Compared to the first months of 2023, Ukraine has rapidly increased the physical volume of exports – from 36 to 49 million tons – against much lower world prices. Another difference was the change in the structure of exports, particularly the resumption of iron ore exports at a level close to 2021.

Imports of goods in April amounted to USD 5.9 bn, similar to March and 27% higher than last year. From January to April, the country imported goods worth USD 21.9 bn. Thus, the total trade deficit in goods reached USD 8.5 bn, which is USD 1.5 bn higher than a year ago. Almost 80% of the deficit is accounted for by the EU (USD 3.6 bn) and China (USD 3.1 bn).

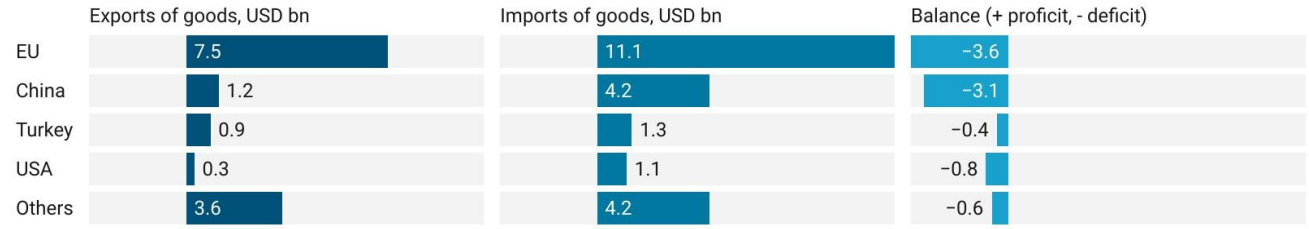
***Figure 4: Ukraine's trade in goods, 2022-2024, USD bn***




*Source: State Customs Service of Ukraine, UN ComTrade*

The EU remains Ukraine's largest trading partner, accounting for 56% of exports and 51% of imports of goods. In May, the EU decided to extend autonomous trade preferences for Ukraine for another year (from June 5, 2024 to June 5, 2025), which abolished tariff quotas for the supply of certain food products, such as grain, chicken, honey, etc. However, since June, as part of the proposed preferences, the EU has introduced additional protective measures, including an "emergency brake" mechanism for supplying eggs, poultry meat, sugar, oats, corn, cereals and honey from Ukraine. The mechanism will be automatically activated if the volume of imports from Ukraine reaches the annual averages registered between July 1, 2021 and December 31, 2023. At the same time, from June 5, Poland, Hungary and Slovakia will lose the formal basis for applying restrictions on the import of Ukrainian products since the EU legislation, which allows individual countries to restrict the supply of goods to their territory in exceptional cases, will be suspended in its application to Ukraine. However, it is unclear whether this will persuade these countries to lift the restrictions in place since September 2023.

***Figure 5: Geographical structure of trade in goods, January-April 2024***




*Source: State Customs Service of Ukraine, UN ComTrade.*

## State budget: The Situation With Budget Financing in 2024 Is Quite Favourable

According to the preliminary information of the Ministry of Finance, the revenues of the State Budget in April amounted to UAH 203 bn, which is slightly less than in March. So, in March, the budget received a record amount of revenues from corporate profit tax (CPT), mainly from banks with a higher tax rate. In April, revenues were supported by the NBU's profit at UAH 38.6 bn, twice as much as envisaged in the planned indicators. The NBU's high profit is primarily due to payments from the State Budget for domestic government debt securities held in the NBU's portfolio. At the same time, only UAH 2.7 bn was received in the form of grants.

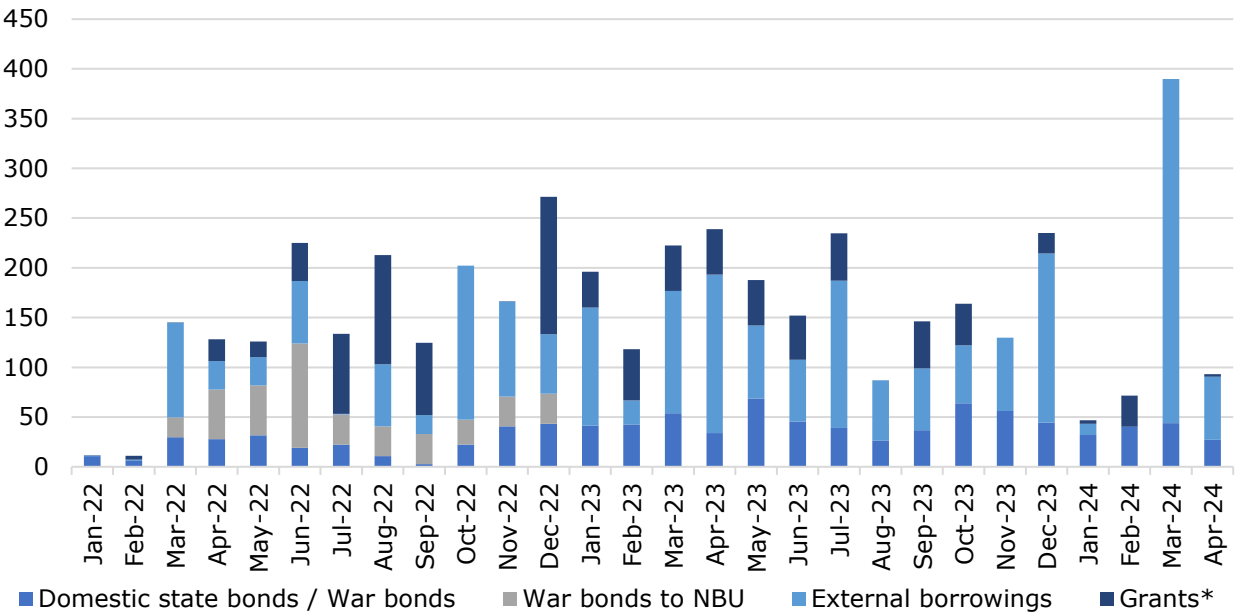
Gross domestic VAT revenues increased by almost 26% yoy to UAH 35.2 bn, indicating increased consumption. At the same time, VAT refunds remained close to April 2023. Imports through the Ukrainian Sea Corridor and smaller blockages of the Polish border contributed to an increase in revenues from VAT on imports by more than 50% yoy to UAH 39.3 bn. Excise tax revenues also increased.

In general, the execution of tax plans was high in April: the State Tax Service reported an over-execution of the plan by UAH 38.2 bn (or 12.6% more than the plan), and the State Migration Service informed on over-execution of revenues of UAH 14.4 bn (or 8.4% more than the plan).

Although the revenue plan was over-executed, expenditures were financed by 93% of the plan or for UAH 253 bn. That probably reflects the time gap between the allocation and use of funds but may be partly due to the cautious financing of expenditures amid uncertainty about when funds will come from the USA. Thus, in April, the USA finally approved an aid package for Ukraine, which provides USD 7.8 bn for budget support, part of which may have to be repaid. It is not yet clear what the conditions for providing this reimbursable assistance will be, as well as the terms of its provision.

Proceeds from the placement of domestic government bonds decreased to UAH 27 bn in April from UAH 44 bn in March, primarily due to lower issues denominated in foreign currency. At the same time, the Ministry of Finance has begun a certain, albeit not significant, reduction in the yield rates on domestic government bonds.

***Figure 6: Funding and grants received by the state budget, UAH bn***




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

In April, a EUR 1.5 bn loan was received from the EU under the Ukraine Facility, as Ukraine met the five indicators for receiving this assistance on time. Also, the European Commission and EU member states approved the Ukraine Plan, meaning that Ukraine will receive an additional EUR 1.9 bn in loans as early as May 2024. The subsequent tranches under the Mechanism will depend on implementing the indicators specified in the Ukraine Plan. These will be quarterly tranches, the decision on the provision of which will be made after the assessment of the implementation of indicators by the European Commission and representatives of the EU Council. If any indicator is not met, no funds will be provided for its implementation. In 2024, Ukraine can receive EUR 16.1 bn from the EU under the Ukraine Facility.

Additional financing is also expected from the IMF if Ukraine fulfils the structural benchmarks for the following reviews in time. In general, the fourth review should be successful, while for the fifth review of the Program, Ukraine needs to adopt a law on rebooting the Economic Security Bureau of Ukraine, which is being discussed.

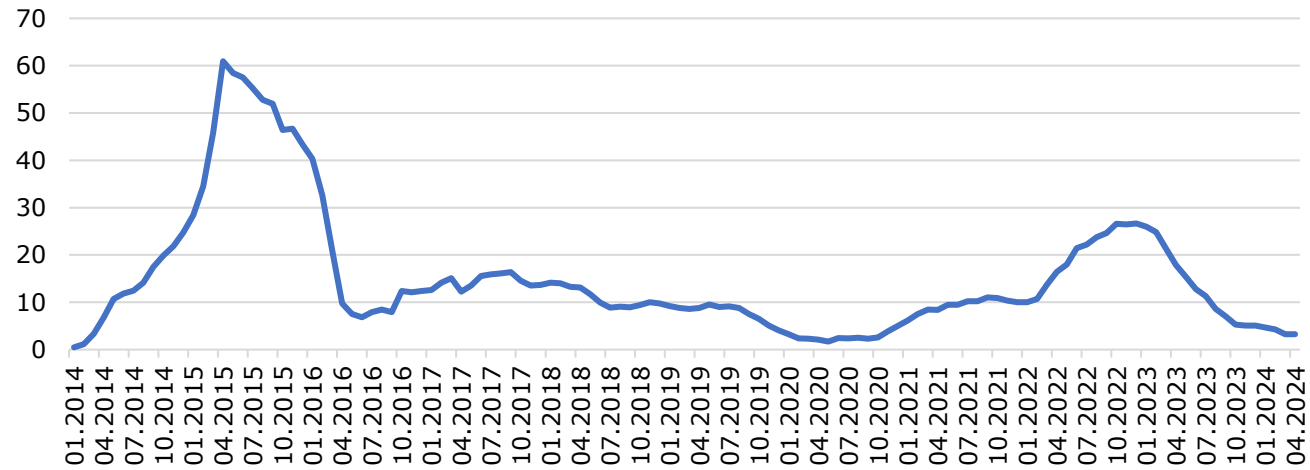
Additional support programs from the World Bank are also planned, the terms of which are currently being discussed.

The government is negotiating difficult matters with private Eurobond holders regarding public debt restructuring. The biggest issue of the discussion in restructuring is probably not about haircuts but about paying a coupon. Thus, investors would prefer to receive a certain regular coupon. At the same time, official creditors oppose such a step since it would actually mean an allocation of international official assistance to private investors. An agreement on debt restructuring must be reached by August 2024.

## Inflation: Consumer inflation remained close to 3% yoy

As in March, annual consumer inflation amounted to 3.2% yoy in April. The price developments did not change significantly: oil, vegetables, sugar, eggs, clothing and footwear, household and other personal appliances were cheaper than last year. However, the fall in egg prices became even greater and reached more than 40% yoy. The decline in prices of various goods again reflected a strong harvest and correspondingly lower feed prices, comparatively low export prices for Ukrainian agricultural products, competition for limited demand for selective consumption goods, and lower transport costs for imports. That likely offset the weakening of the hryvnia against the dollar and some increase in oil prices in recent months. Nevertheless, prices for several basic necessities and goods and services with a large share of labor costs remained higher than last year (for example, bread, meat, medicines, household services, hotels, restaurants and medical institutions). Fuel prices increased by 18% yoy.

***Figure 7: Consumer price inflation, % yoy***




*Source: State Statistics Service of Ukraine*

Over the past month, consumer prices increased by only 0.2% mom. In April, egg prices continued to decline, and some vegetables fell in price in line with a warm spring and increased production. The State Statistics Service also reported a seasonal price decline for "other goods and services". Such a decrease has been recorded every April since 2010, although the list of "other goods" does not include obvious seasonal components (haircuts, personal hygiene products, car insurance, bags and jewellery, funeral services). Excluding these factors, the price increase would have been about 0.4% mom, slightly more than in previous months.

## Monetary Policy and Exchange Rate: NBU Cuts Rate Again, Hryvnia Stabilizes

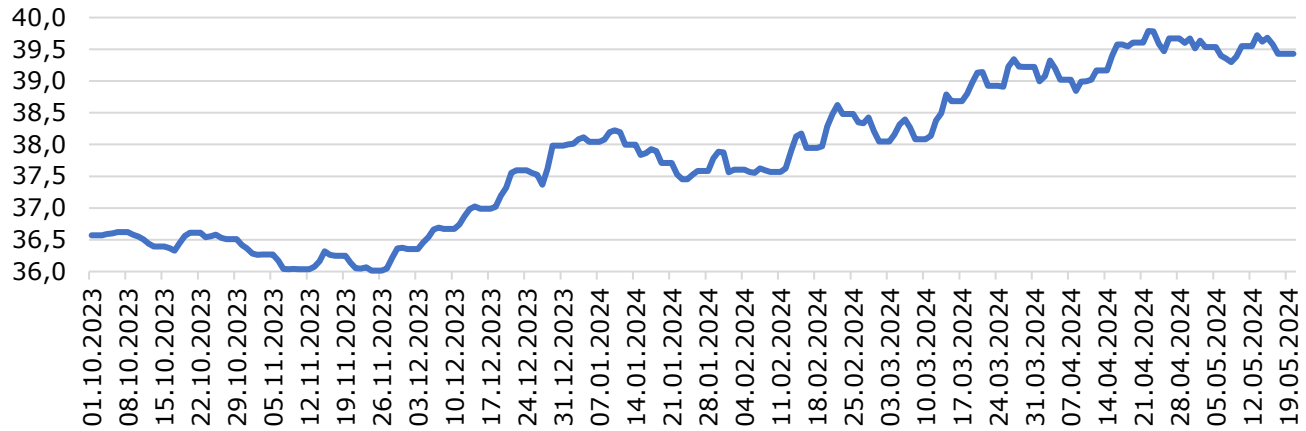
***Monetary policy.*** At its April monetary policy meeting, the NBU again cut the key policy rate from 14.5% to 13.5% per annum. This decision was expected after the previous rate cut and the subsequent slowdown in inflation in March. However, at the same time, the NBU lowered its GDP growth forecast for this year to 3.0% from 3.6% and kept its inflation forecast at more than 8% (8.2% against 8.6% previously).

Most committee members expect the key policy rate to be at 13% p.a. at the end of this year, close to the current one. On the one hand, increased war risks and electricity shortages may force the NBU to stop cutting the key policy rate. On the other hand, if inflation remains low, committee members may once again revise their expectations downwards (as they did at least three previous meetings) and continue to cut the key policy rate gradually.

***Exchange rate.*** Over the past four weeks, the hryvnia exchange rate has stabilized at 39-40 UAH per USD. That happened with significant support from the NBU: interventions to support the exchange rate exceeded USD 500 m per week every week from April 15. These are not record volumes but were higher than the average for the first quarter. This year. In April, the net demand for foreign currency remained relatively high (demand for cash foreign currency increased slightly, but export earnings have also increased).

In April, the NBU's international reserves declined slightly to USD 42.4 bn, as net foreign exchange inflows from donors at USD 711 m were small after record inflows in March and due to significant payments on previous debts to the EU, the World Bank and the IMF. However, the NBU's reserves remain historically high and cover almost six months of imports.

***Figure 8: Official exchange rate of the hryvnia to the US dollar (UAH per USD)***




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

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