



## Economy review in August. Special topic: How Ukraine Can Harvest and Export the Crop This Year



WAR

# WAR UPDATE



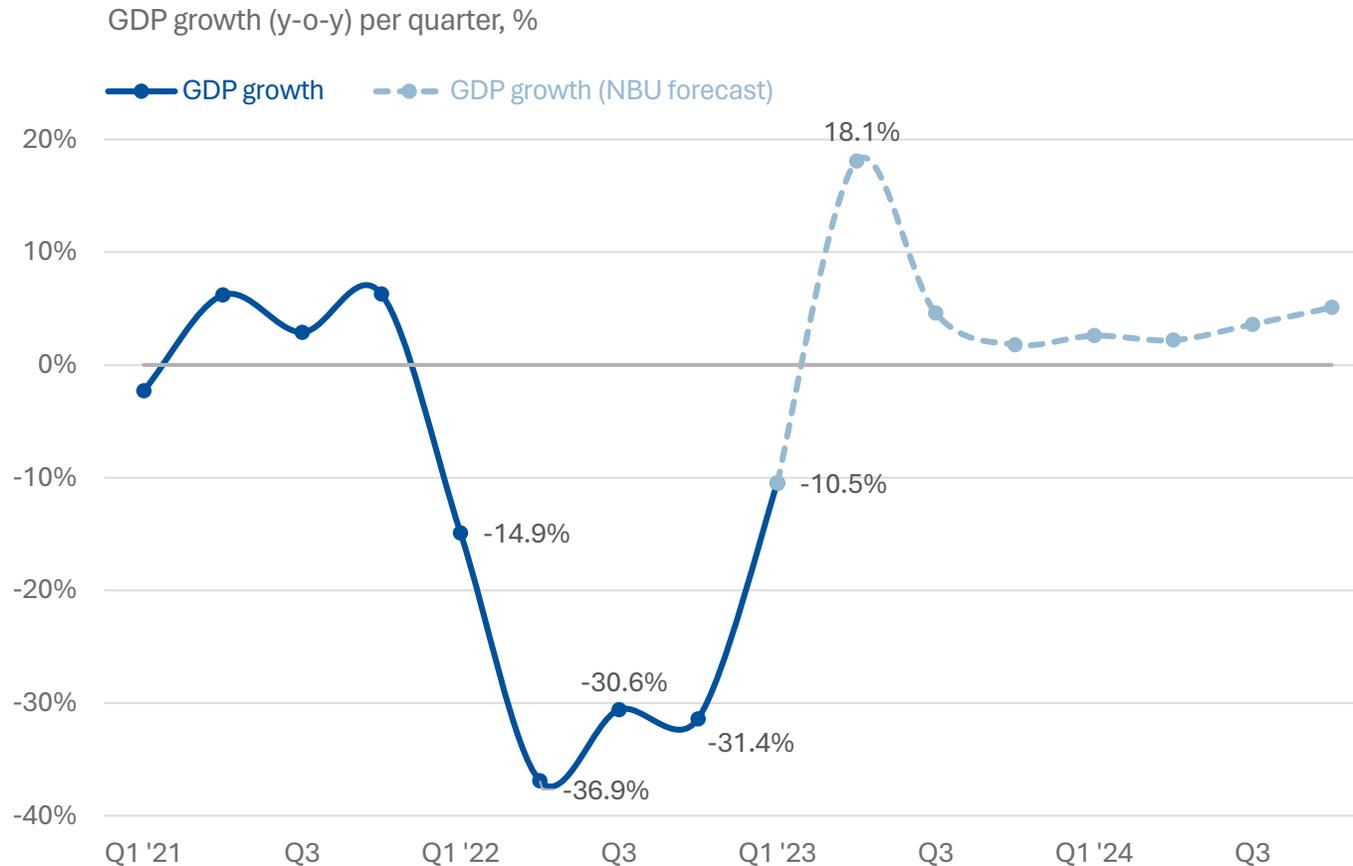
- In August, Ukraine's counteroffensive operations continued, with heavy fighting on the eastern and southern fronts.
- Ukrainian forces have been gaining momentum in the south, pushing through the first lines of the Russian defenses near Robotyne.
- Oleksii Reznikov, the Minister of Defense of Ukraine, was dismissed. Rustem Umerov will take over.
- Yevgeny Prigozhin of PMC Wagner was killed in an air crash in Russia on August 23, two months after his attempted coup.



# MACROECONOMIC TRENDS

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## GDP forecasted to increase by 3-4% in 2023

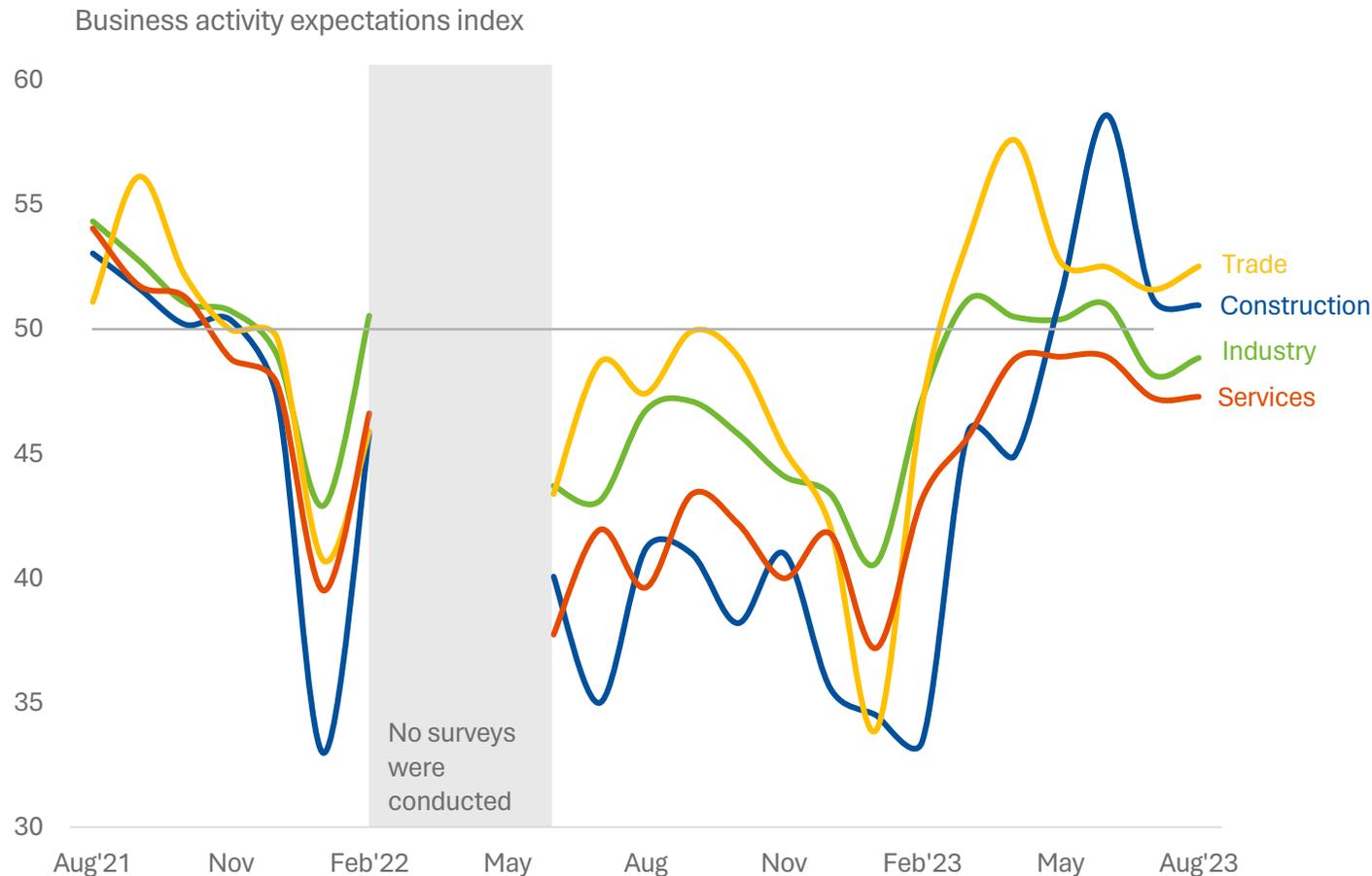


Sources: State Statistics Service of Ukraine, NBU

- Forecasts of the GDP growth in 2023 improved. The NBU forecasts that GDP will increase by 2.9% this year.
- This is consistent with the new forecast by Serhii Marchenko, minister of finance, who said that GDP will grow by 3% or more.
- Yulia Svyrydenko, minister of economy, has a more optimistic view, with 4% GDP growth forecasted for 2023.

# MACROECONOMIC TRENDS

## Business expectations slightly improved in August



Source: NBU

- In August, the NBU Business expectations index was 49.3, up from 48.8 in July.
- Expectations of service providers and industrial companies are below the “neutral” index of 50.0.
- Construction and trade companies have a more positive outlook.
- War risks, logistical and export issues, high fuel prices and labor shortage are restraining companies’ economic activity and expectations.



# SECTORAL ANALYSIS

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## Ukraine's energy sector has been preparing for the hard winter ahead

- Commercial electricity imports doubled in August compared to July and amounted to 113 887 MWh. With only 204 MWh exported, net electricity exports remained negative in August.
- Exports increased in September, with net exports becoming positive.
- Power plants are still undergoing scheduled maintenance. Scheduled repairs of the power grid are 98% complete, of nuclear power plants — 70%, thermal power plants — only 30%.
- Ministry of Energy denies any criticism, stating that everything is going according to plan.
- Ukraine has already amassed 14 bn m<sup>3</sup> of natural gas in its underground storages out of 14.7 bn planned.
- However, coal reserves may have decreased by 0.1 million tonnes because of increased consumption to produce electricity in August.

Ukraine net electricity commercial exports in 2023, MWh

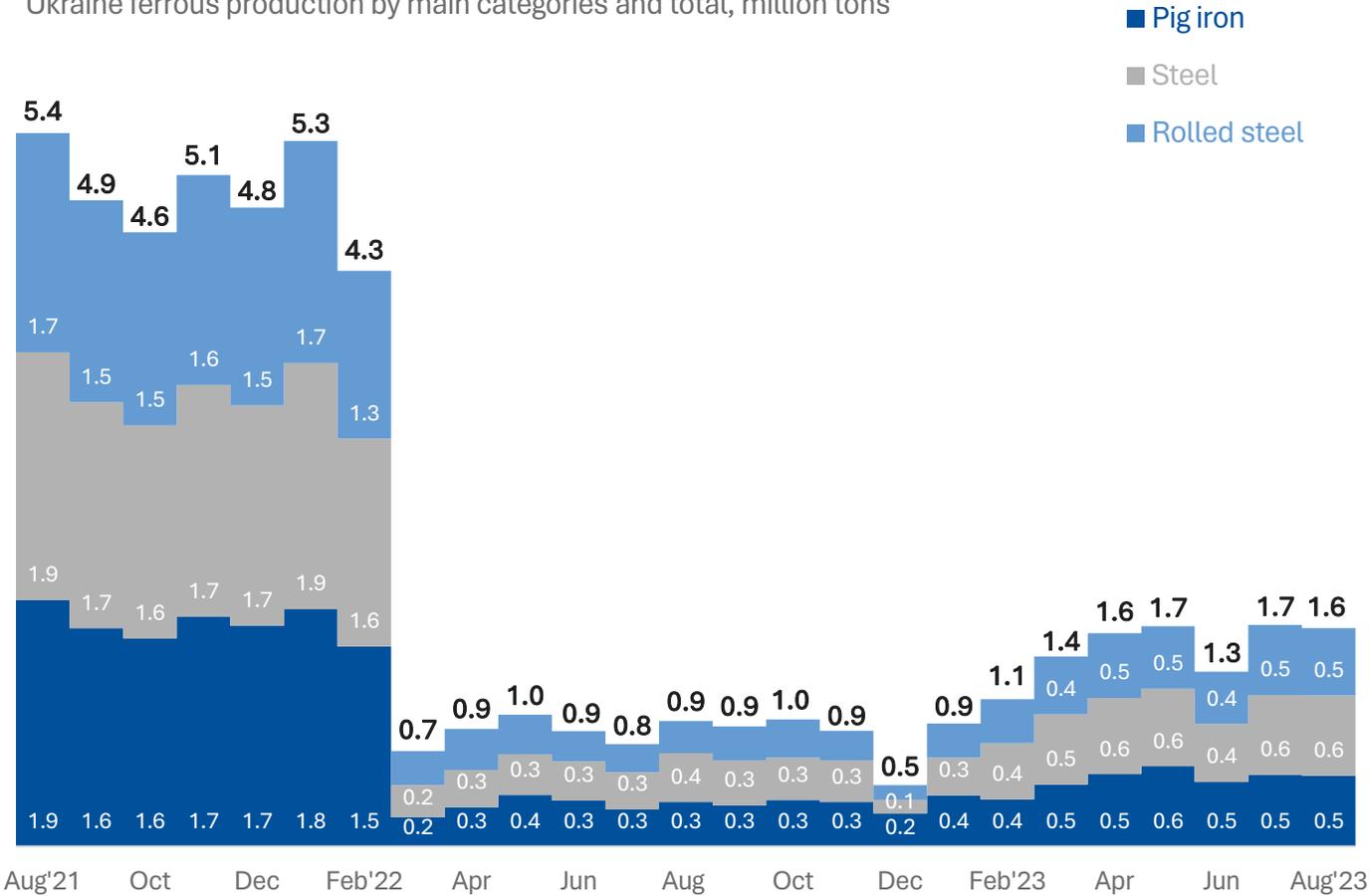


Source: ENTSO-E

# SECTORAL ANALYSIS

## First three ships with metals departed from Black Sea ports

Ukraine ferrous production by main categories and total, million tons

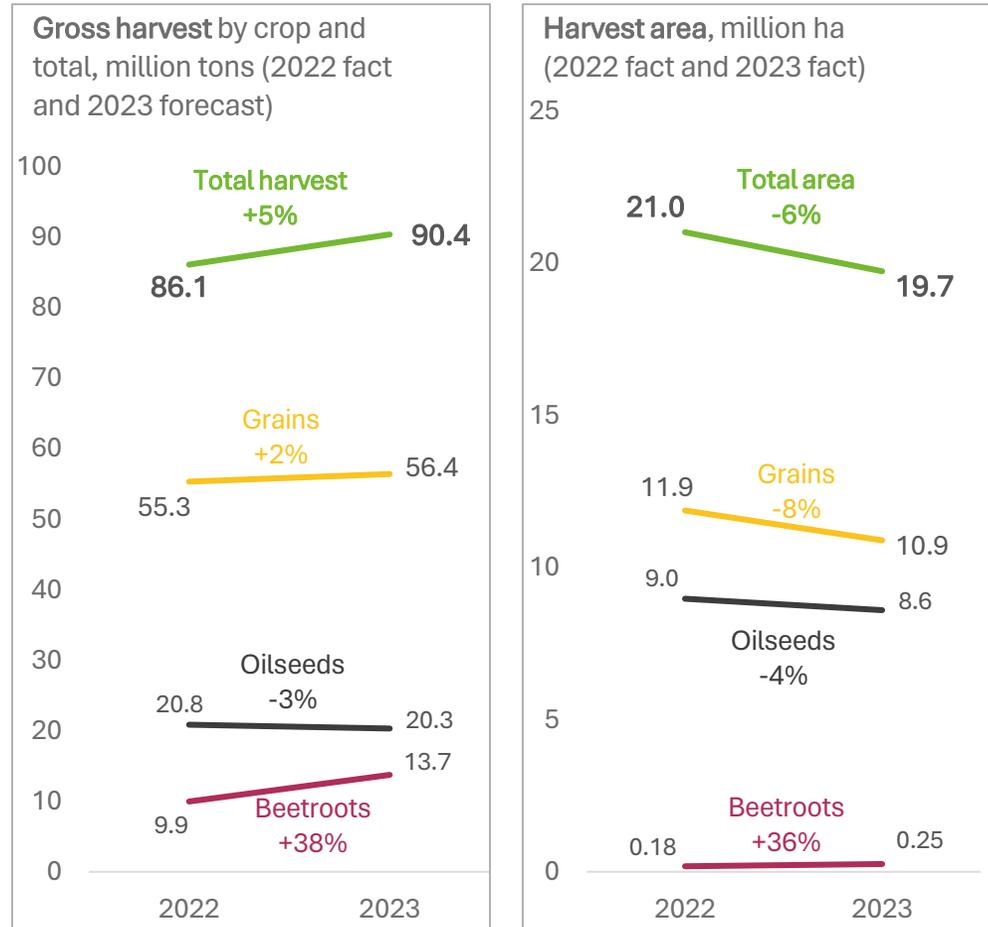


Source: Ukrmetalurgprom

- In August, the ferrous production decreased by 1.4% compared to July.
- Logistics is still one of the main issues preventing the industry from further recovery.
- Operating steelworks production is at 55% of 2021 level, mining and processing plants — at 35% of 2021 level.
- First three ships with rolled steel and iron ore concentrate departed from Odesa and Pivdennyi ports and successfully left Ukrainian waters.

# SECTORAL ANALYSIS

## Grain harvests will be larger in 2023 even though harvesting areas decreased



Source: Ministry of Agriculture

- Gross harvest in 2023 is forecasted to be larger than last year because of the good weather this season.
- Grain and oilseeds harvests were 76.1 million tons in 2022, forecasted to grow to 76.7 million tons in 2023 (Ministry of Agriculture) or even 80.5 m t (Ukrainian Grain Association).
- Harvests will be larger even though harvest areas declined overall.
- 2024 harvest areas will depend on the effectiveness of 2023 export logistics; weather also may not be as favorable as it was this year.

# SECTORAL ANALYSIS

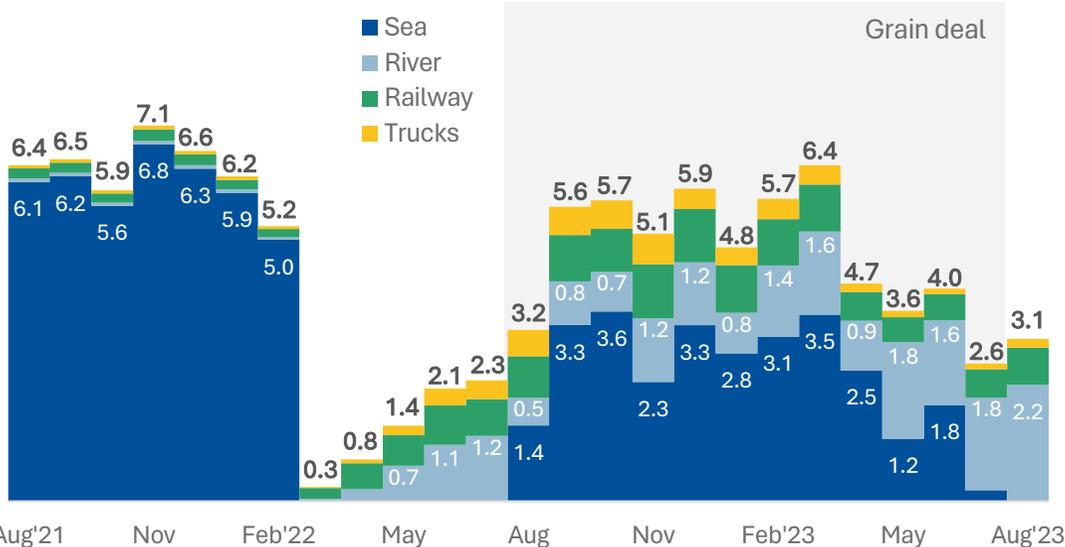
## Vital sea access is jeopardized by attacks



Sources: Ministry of Infrastructure, Ministry of Agriculture, State Custom Service, UN.  
Created with Datawrapper

- Ukraine seeks to establish a reliable sea route to the ex-Grain deal ports. 5 successful outbound voyages so far.
- Danube ports are crucial as a back-up. However, they are under constant Russian attacks.
- Grain exports up by 19% in August as exporters adapt to the Grain deal collapse.

Exports of grain and oilseeds by transport and total, million t



Sources: Ministry of Agriculture, State Custom Service, UN



# FISCAL SECTOR

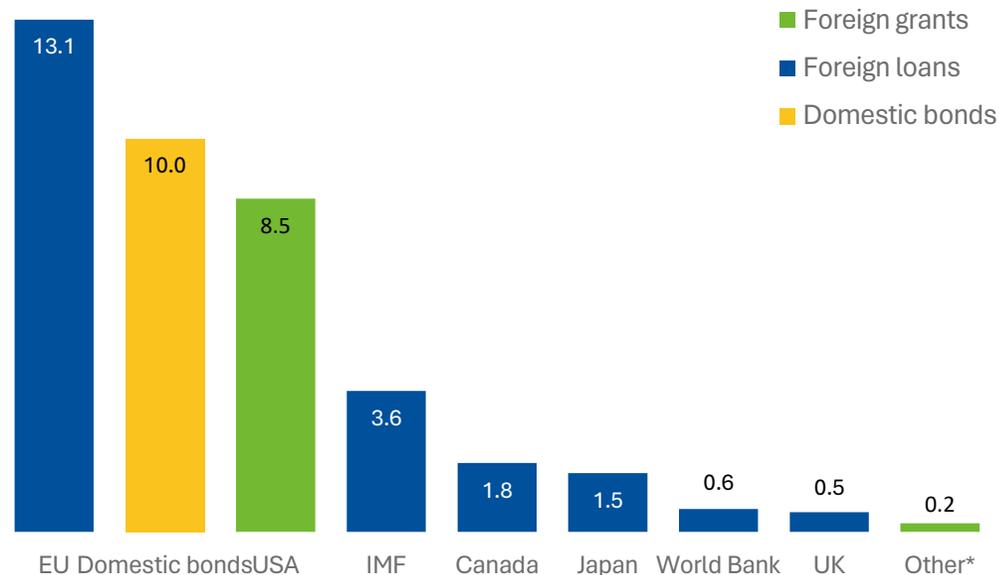
# FISCAL SECTOR

## Only USD 1.6 bn of foreign financing in August

In August, Ukraine received only a USD 1.6 bn loan from the EU.

There have been no disbursements from the US, although there are still about USD 1.5 bn of grants that were pledged for this year.

2023 additional financing of Ukraine's state budget as of September 5, USD bn



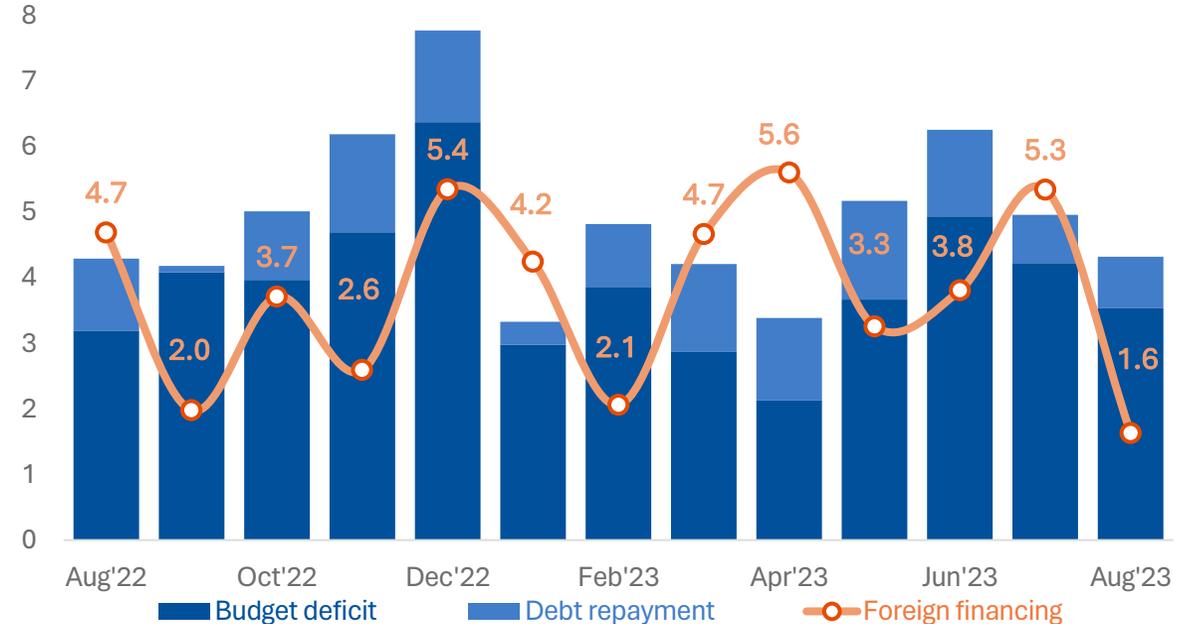
Source: Ministry of Finance

\*Germany, Spain, Finland, Ireland, Switzerland, Belgium, Iceland, Estonia

8 months 2023:

- State budget deficit debt repayment needs: USD 36.5 bn
- Foreign financing disbursed so far: USD 30.6 bn
- No monetary financing.
- Financing gap (pledges - budget needs) stands at USD 7.2 bn and will be covered mostly with additional issues of domestic bonds.

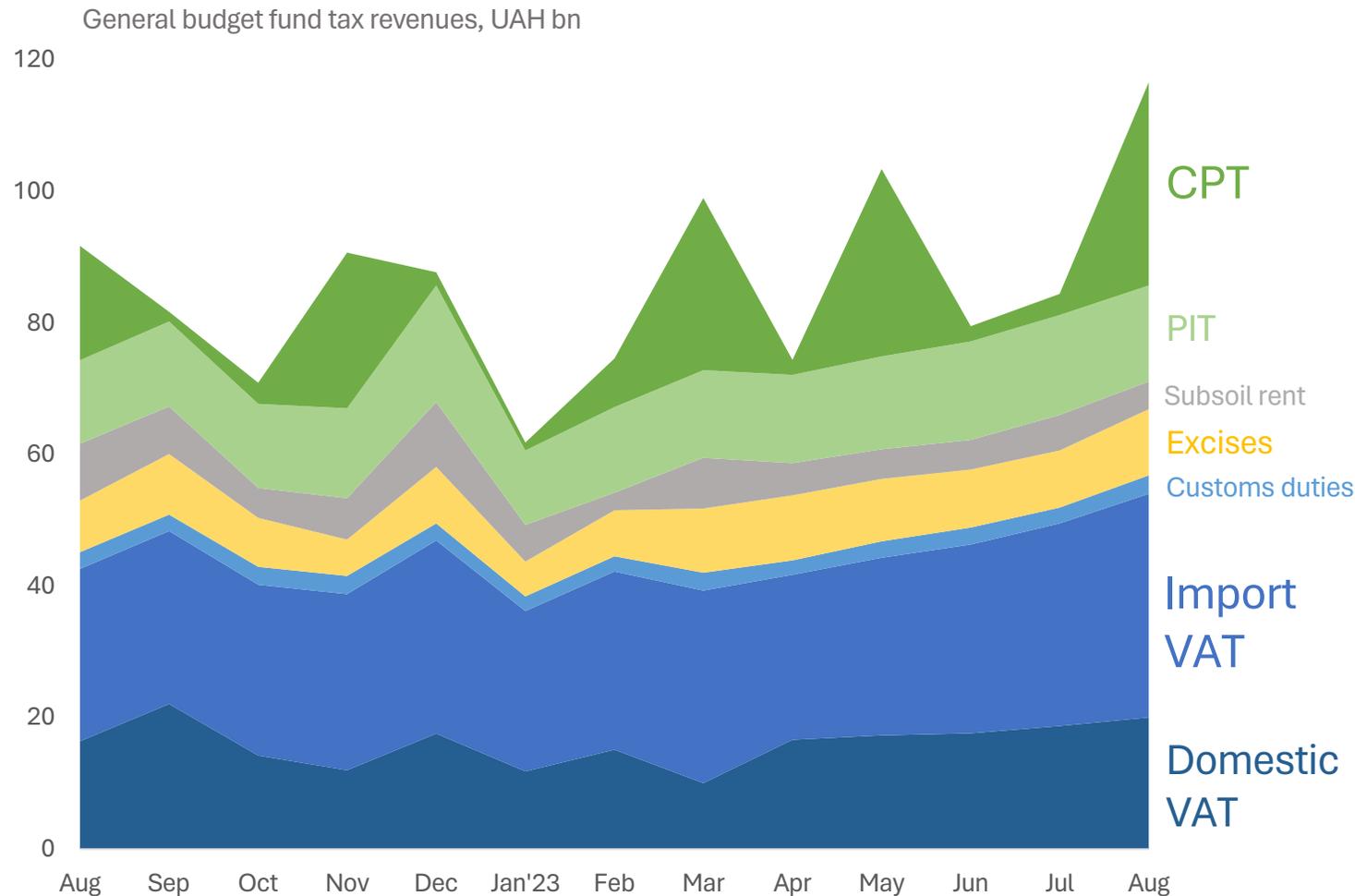
Foreign financing, budget deficit and debt repayment in 2022-23, USD bn



Source: Ministry of Finance, NBU, CES calculations

# FISCAL SECTOR

## Tax revenues continue steady growth driven by imports, strong CPT



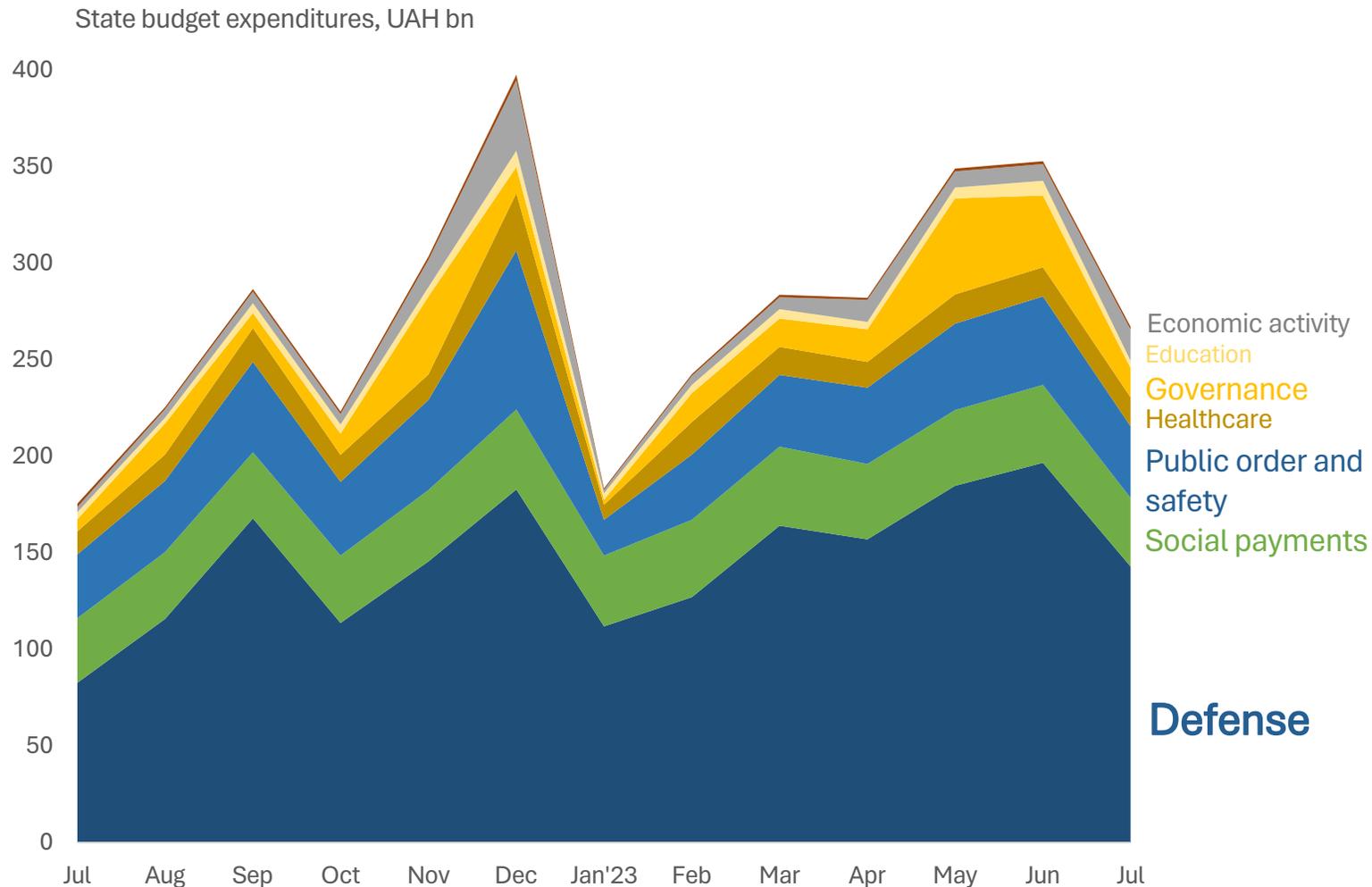
Source: Ministry of Finance

- Tax revenues in August reached UAH 116.6 bn
- Imports of goods (YoY growth by 19%) continue driving the tax revenues, bringing UAH 34 bn in VAT, but it may be not sustainable in the long run due to the CA deficit
- The excise revenues added 16% m-o-m as the old fuel stock was replenished under the renewed fuel excise rates.
- State Customs Service continues to underperform its annual revenue plan, explaining it by hryvnia remaining stronger than in the initial budget forecast by 13%. However, FX input is offset by the growth of imports by 18 p.p more than forecasted.

*Note: the detailed breakdown by sources is not available as only preliminary June figures were released as of the current date*

# FISCAL SECTOR

## State spending decreased sharply in defense and debt payments

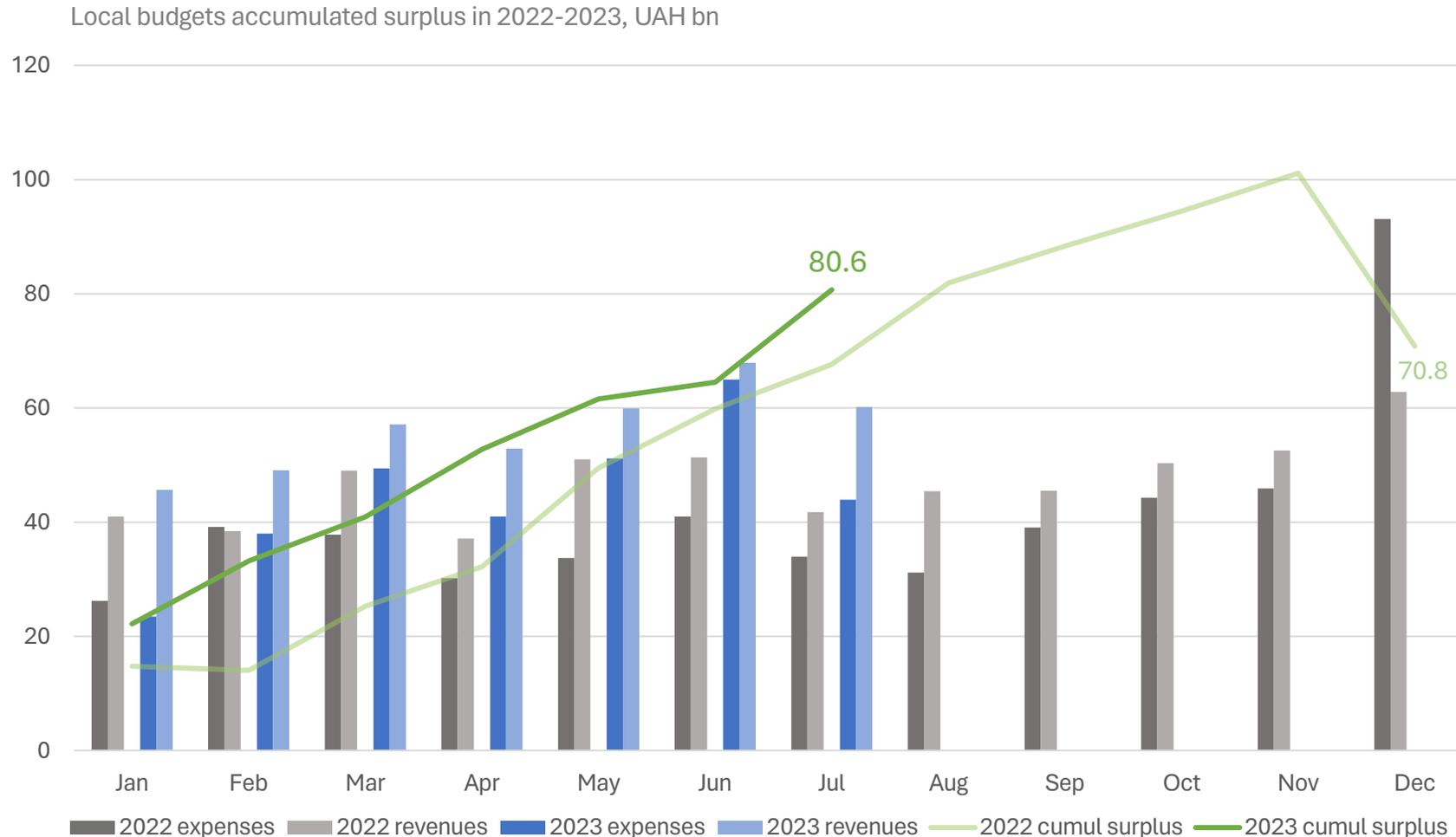


Source: Ministry of Finance

- Monthly state budget expenses in July decreased by 25% MoM to UAH 267 bn
- **Defense** expenses scaled down by UAH 54.7 bn, while all other expenses decreased by UAH 31 bn, mostly due to decrease of debt service by UAH 21.8 bn (Governance function)
- Yet, defense continues to account for 50% of state expenditure, or over a quarter of state GDP.

# FISCAL SECTOR

## Local budget surplus continues exceeding 2022 levels



The local budgets' accumulated surplus continued growing:

- PIT revenues, including those from military salaries, remain strong;
- July expenses sharply decreased, mostly due to lower expenses on education: UAH 12.4 bn in July vs UAH 32.7 bn in June, while many “peace time” expense items remain suspended by government decree.

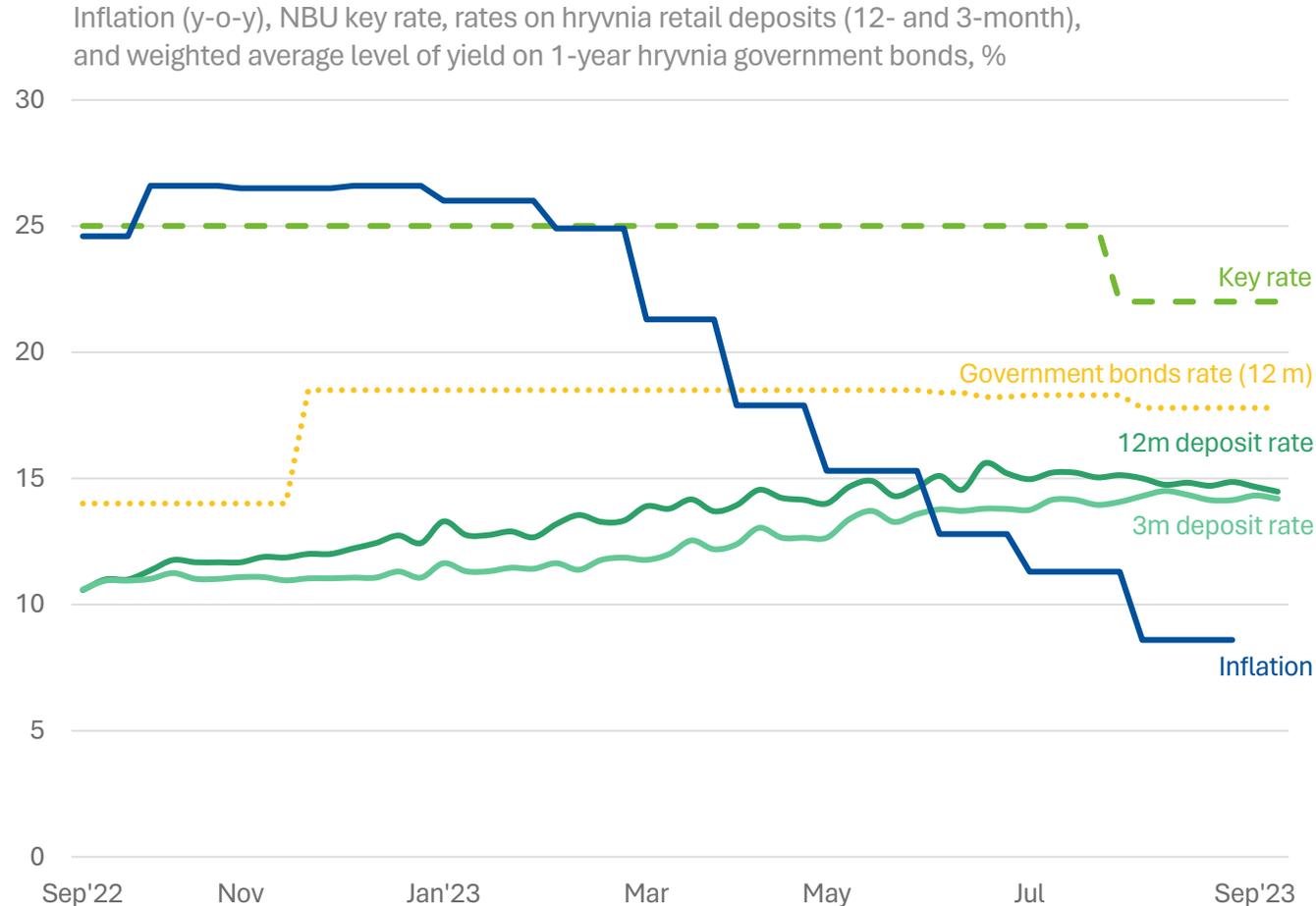
Source: Ministry of Finance, CES calculations

# MONETARY AND FX POLICY



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## The rates are stable; inflation continues to decelerate

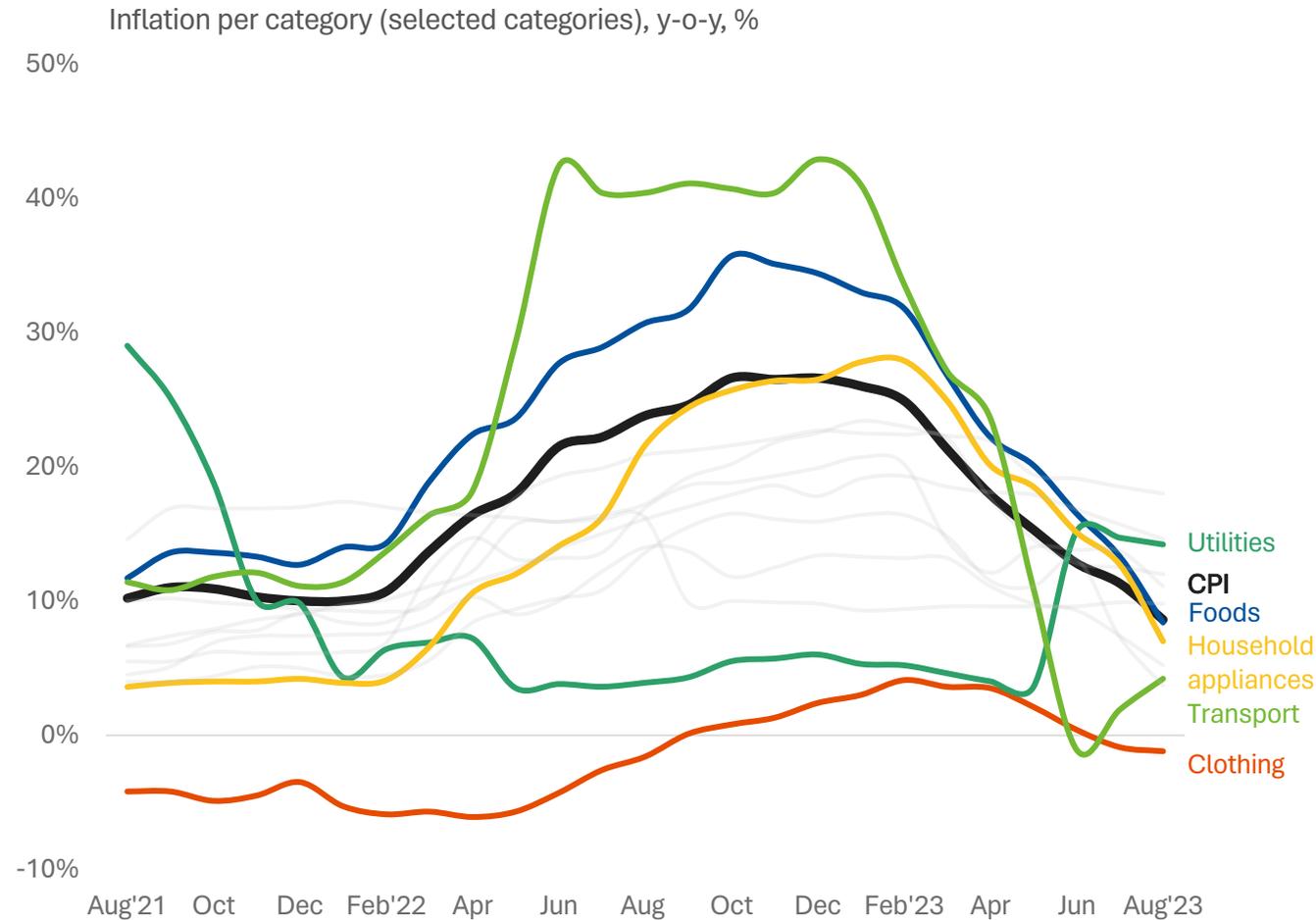


Sources: NBU, State Statistics Service, UIRD

- The key policy rate remains unchanged at 22% after the NBU decreased it at the end of July 2023. There are expectations that the key policy rate will go down further by the end of the year, meanwhile keeping the hryvnia assets attractive enough.
- The yield of one-year hryvnia war bonds remained the same - 17.8%. At the end of August, average rates on retail remained quite the same for 3-month deposits (14.1%) and 12-month retail deposits (14.9%).
- In August, inflation declined, and the growth in consumer prices decelerated to 8.6% y-o-y. In monthly terms, prices decreased by 1.4%.

# MONETARY AND FX POLICY

## Inflation slows down; CPI 8.6% y-o-y in August

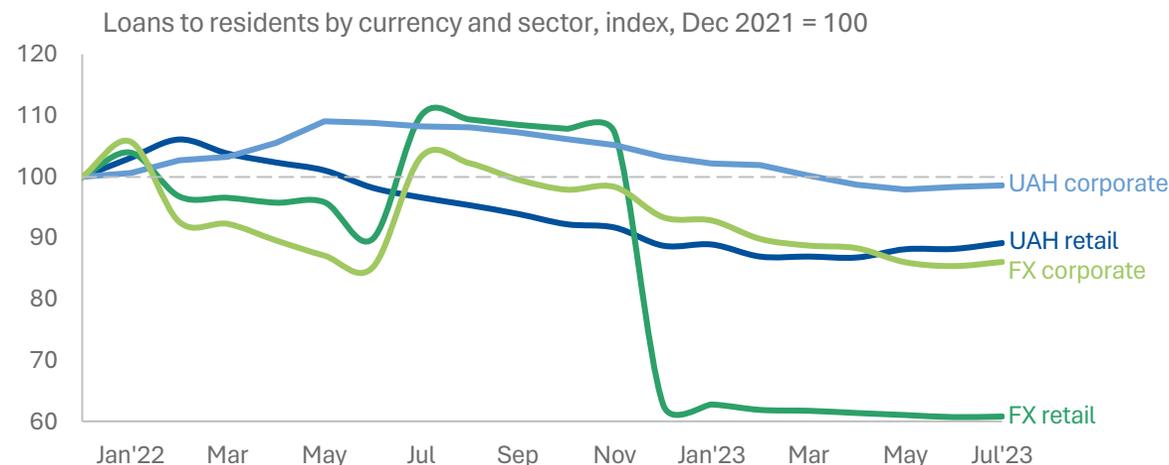
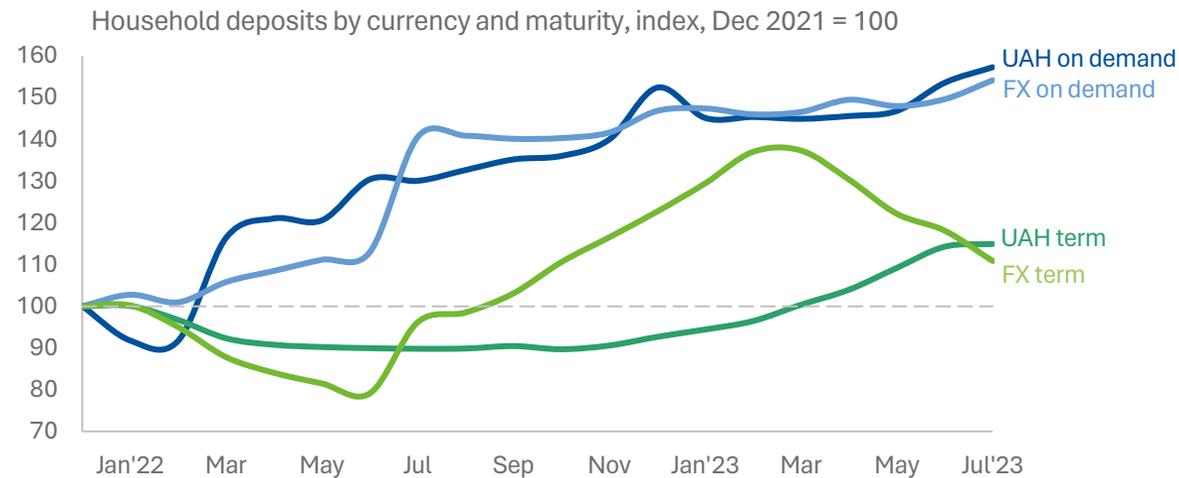


Source: State Statistics Service of Ukraine

- According to the State Statistics Service, inflation in August was -1.4% compared to July, the second consecutive month of price declines. Since the beginning of the year, inflation has amounted to 2.5%.
- Food prices fell by 3.7% m-o-m, mainly due to a drop in the price of vegetables (-37.6% m-o-m) and fruits (-4.2% m-o-m). Clothing continued to fall in price (-2.3% m-o-m).
- Certain groups of goods became more expensive, including transport (+3.0% m-o-m), mainly due to higher prices for fuel and oils (+7.4% m-o-m).
- Inflationary pressure declined in line with the NBU's expectations. This was driven by improved expectations because of continued exchange rate stability and reduced pressure from business costs.

# MONETARY AND FX POLICY

## Hryvnia loans and deposits are on the rise



Source: NBU

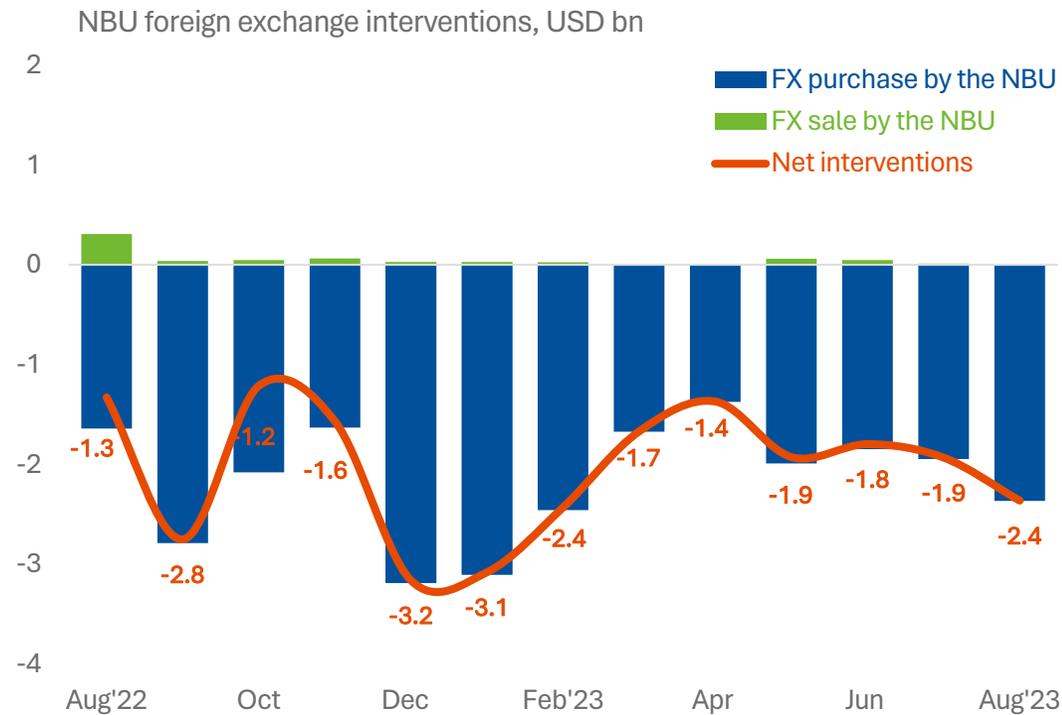
- The volume of household deposits continues to increase, both for UAH term and on-demand ones, due to the increase in interest rates.
- However, FX term deposits continue to decline. The hryvnia's cash market strengthening reduced FX deposit profitability, causing decreased demand.
- All types of loans have demonstrated a gradual volume increase for the first time since the full-scale invasion. The banks reported a strengthening of demand for SME loans.
- Most of the lending continues to take place under the Affordable Loans 5–7–9% program, primarily in agriculture and trade. Loans granted within this program still comprise 1/3 of the hryvnia corporate loans' performing gross portfolio.
- The share of non-performing loans (NPL) in the banking sector as of August 1, 2023, was 39.3%, which is 0.3 p.p. higher than on July 1, 2023.

# MONETARY AND FX POLICY

## UAH devalued; international reserves decreased but still are record-high

There is still a need for significant FX sales by the NBU. **Ukraine's international reserves decreased by 3.2% m-o-m in August, reaching 40.4 USD bn.** It happened due to the NBU's FX sales to balance Ukraine's FX market, partly compensated by international aid inflows.

The official rate remains fixed at 36.57 UAH/USD. The cash market rate has devalued slightly: 36.75–37.35 UAH/USD on July 15 and 37.00–37.65 UAH/USD on August 15. The NBU has lifted the restrictions on cashless FX sales to households to narrow the spread between the cash and the official rates.



Source: NBU



Source: NBU, Ministry of Finance



THANK YOU.

*This text reflects the opinion of the authors and does not necessarily represent the views of the German Economic Team.*