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Author: CES Team

Economy review in February.  
Special topic: Challenges at Sea and Border.  
What is the future of Ukraine's foreign trade?



# EXECUTIVE SUMMARY

# EXECUTIVE SUMMARY: UKRAINIAN ECONOMY IN FEBRUARY 2024

- **SPECIAL TOPIC:** We overview the key figures of Ukrainian foreign trade in January and February. Share of Chinese imports increased to 21.7% in January, significantly higher than on average in 2023. In January, drones are in top-10 imported goods.
- **Sectoral analysis:** Businesses improved their outlook after four months of negativity. Ukraine's exports of grains and oilseeds reached a two-year record high thanks to the Ukrainian Sea Corridor, and electricity exports are increasing.
- **Monetary and FX sector:** Inflation slows down even further to 4.3% in February, and NBU subsequently decreased the key rate to 14.5%; international reserves decreased slightly. Hryvnia is on downward course, reaching record-lows.
- **Banking sector:** January, as expected, showed a seasonal decline in deposit taking, but the situation improved in February. The situation with loans remains relatively stable - they are slowly growing, but 5-7-9 remains one of the key drivers of lending.
- **Fiscal sector:** Foreign financing remains rather low with only \$0.8 bn disbursed in February. Nevertheless, Ukraine had to increase its expenditures after forced cuts in January.

See our report below for further details.



# SECTORAL ANALYSIS

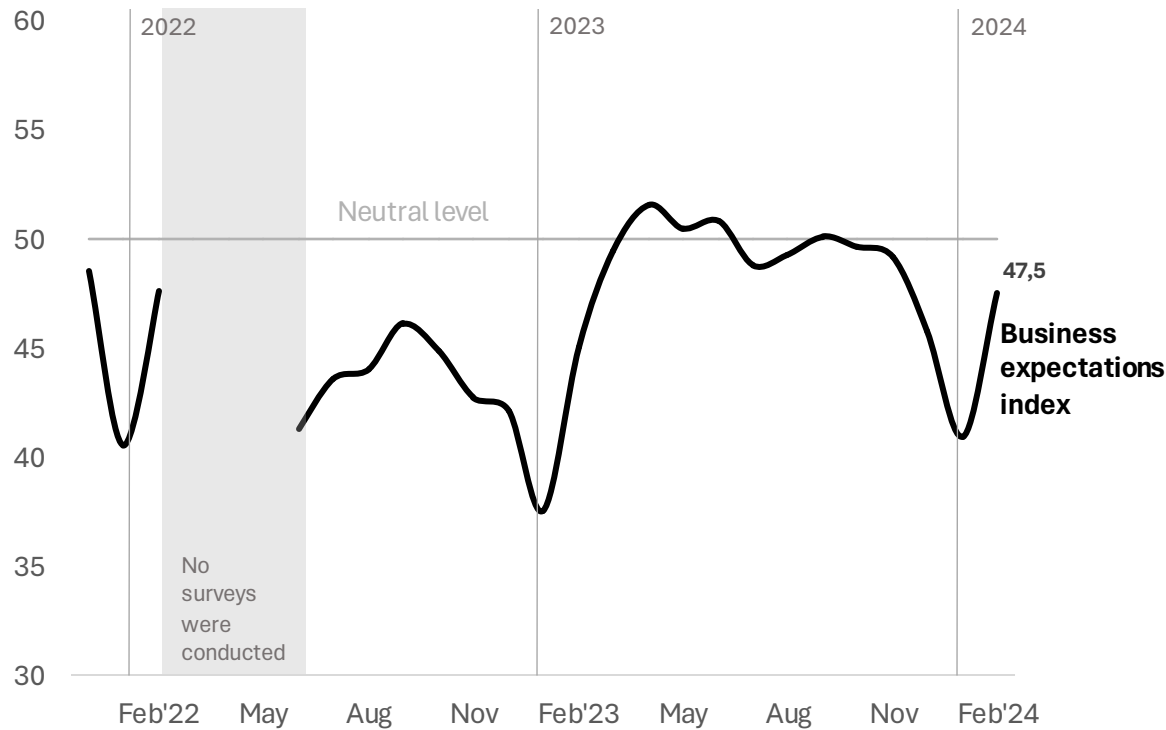
# MACROECONOMIC TRENDS

## Business expectations improved in February

- In February, NBU business activity expectations index was 47.5 — expectations improved but were still negative. **Business expectations improved after a four-months slump.**

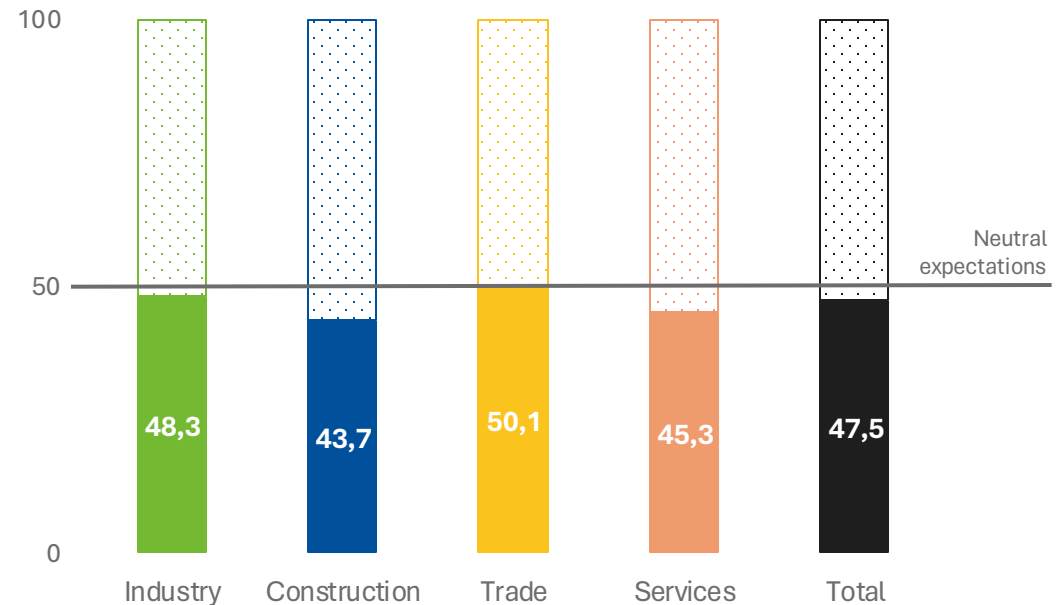
- All sectors except for trade reported negative expectations.** Trading companies were positive, thanks to weaker inflationary pressures, a persistently stable FX market, and sustained consumer demand. War-related issues, especially staff shortages, affect the expectations of all sectors.

NBU business activity expectations index dynamics



Source: NBU

NBU business activity expectations index by sector in February

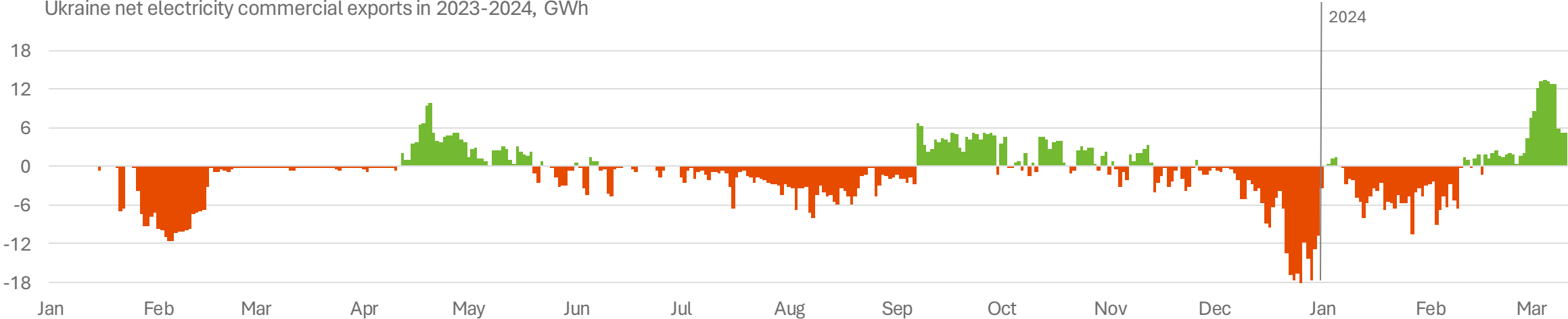


# SECTORAL ANALYSIS

## Ukraine restores sustainable electricity exports

- Ukraine's power grid went through the winter without any major outages. Given the upcoming warming, one can say that the Ukrainian energy sector has withstood this heating season.
- In February, Ukraine turned out to be a net importer of electricity due to large imports in the first third of the month. Net commercial imports for the month amounted to moderate 18.7 GWh.
- At the end of February, Ukraine exported electricity daily, and in early March, daily export volumes updated several-year highs, exceeding 13 GWh per day.
- Ukraine sells electricity to all its geographic neighbors, except for the two aggressor countries. Most of it is exported to Hungary and Poland - more than 4 GWh per day each on peak days.

Ukraine net electricity commercial exports in 2023-2024, GWh

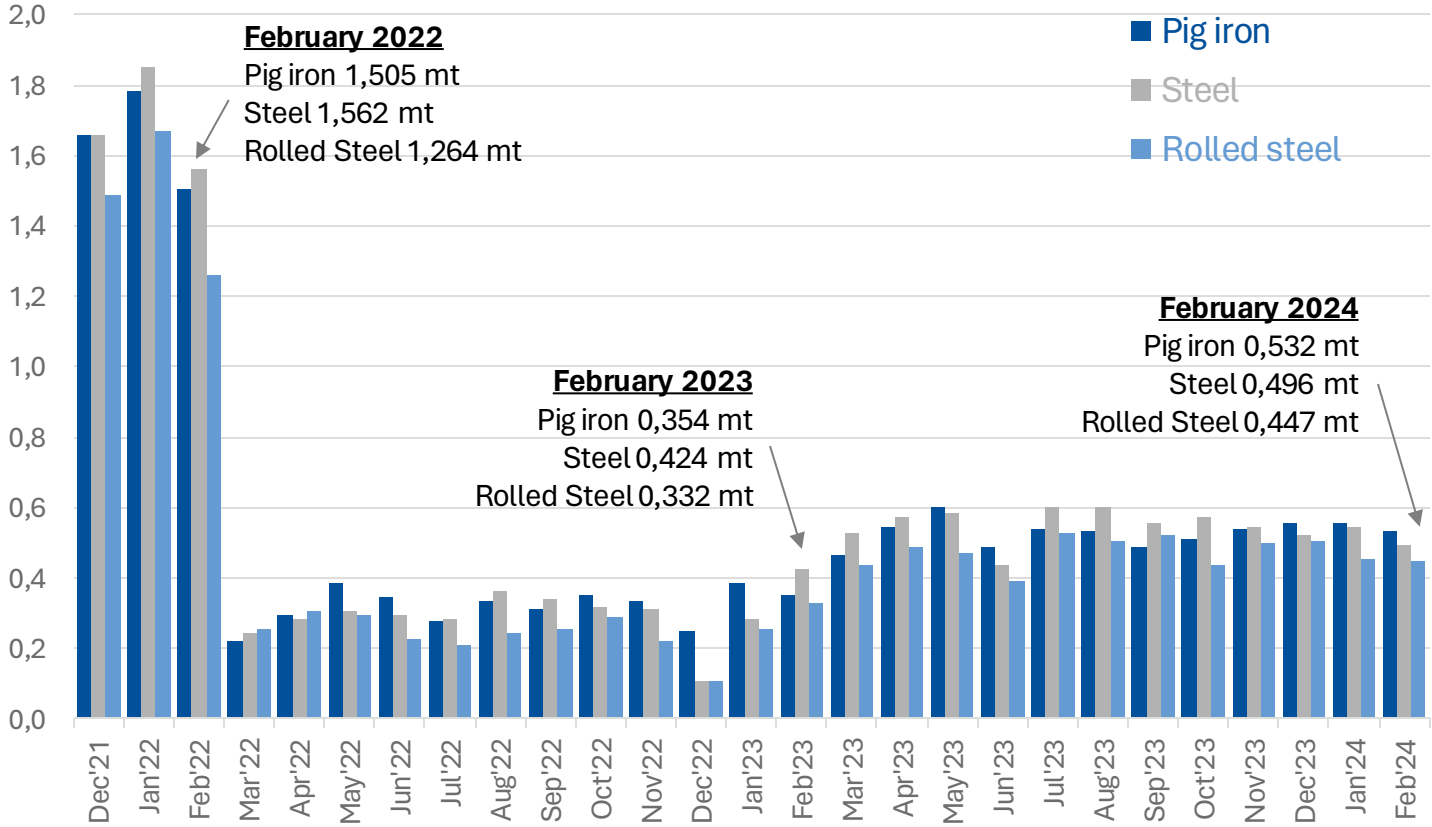


Source: ENTSO-E

# SECTORAL ANALYSIS

## Average daily steel production hits local maximums

Ukraine ferrous production by main categories, mt



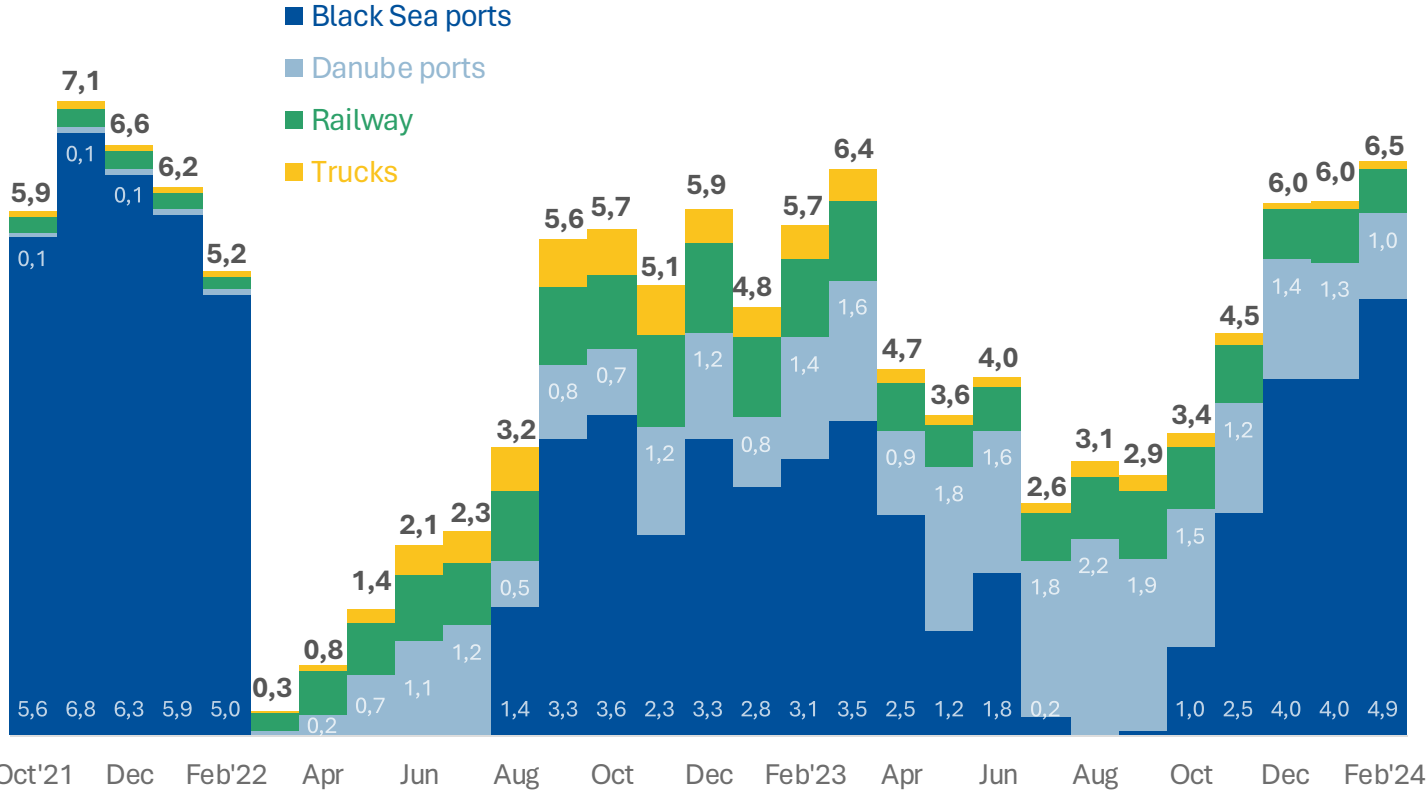
Source: Ukrmetalurgprom

- In February, Ukraine produced 532 thousand tons of steel, 496 thousand tons of pig iron and 447 thousand tons of rolled products, 1-11% lower than in January. The average daily production of the main types of products is comparable to last month's figures, and steel production exceeded 18 thousand tons per day for the first time in last six months.
- In the first two months of the year, steel production increased by 52% to 1.08 million tons, iron production by 42% to 1.05 million tons, and rolled products by 53% to 900 thousand tons.
- Ukraine exported 3.11 million tons of iron ore in January. This is 94% more than in December and 3.4 times more than in January 2023. The largest buyers were China (48%), Slovakia (13.6%) and Poland (10.5%).
- In January, Ukraine reduced domestic consumption of rolled and semi-finished products by 37% to 138 thousand tons.

# SECTORAL ANALYSIS

## Agri exports hits two-year highs in February

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

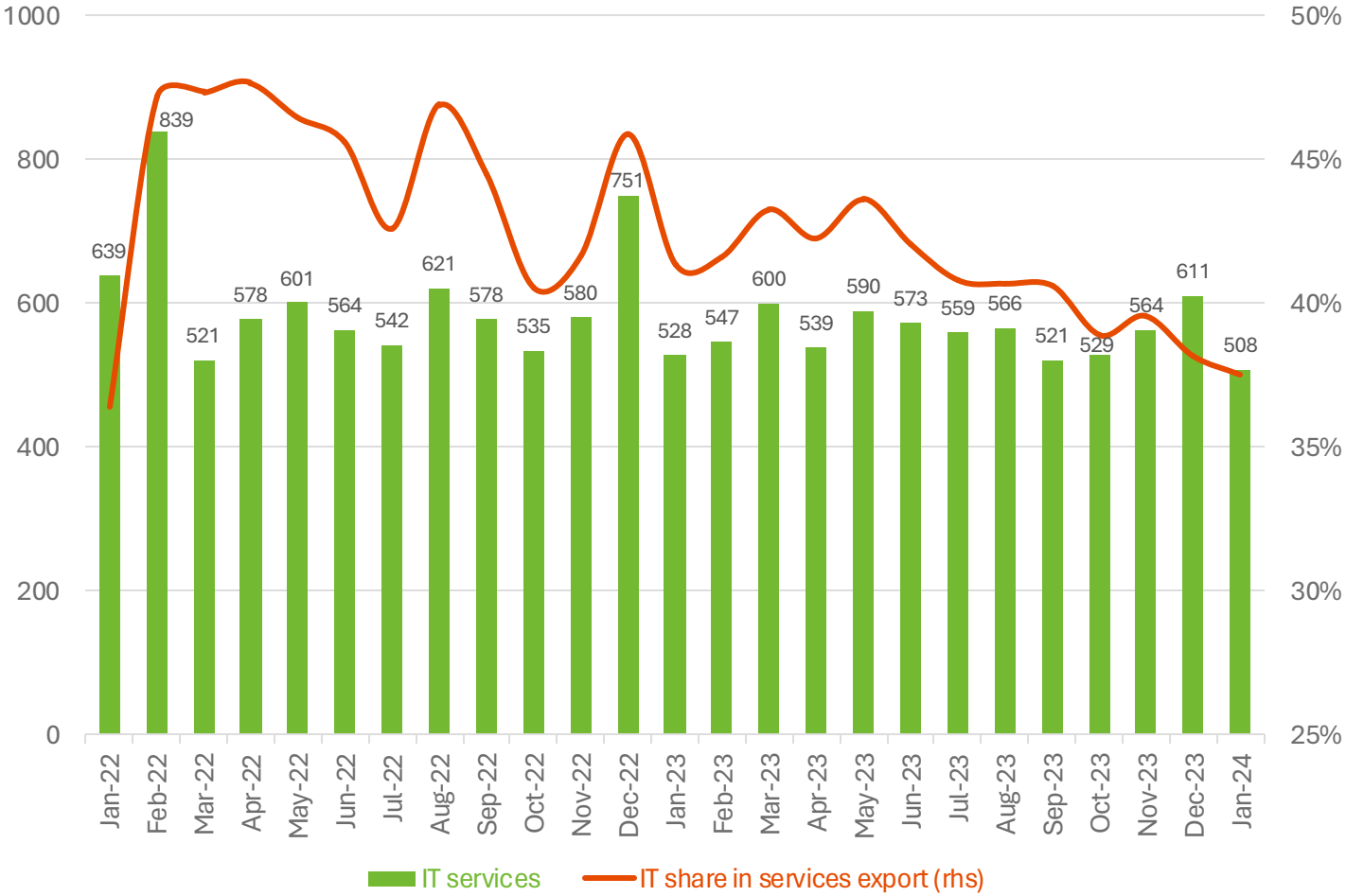


- Agricultural exports rose for the fifth consecutive month in February, to 6.45 million tons, the highest level since the start of the full-scale invasion.
- Export growth is driven by Black Sea ports. Alternative export routes are providing decreasing volumes. The figures were lower only in the spring of 2022, when exporters had not yet recovered from the shock and did not organize delivery via alternative routes.
- The blockade of the land borders with the European Union, primarily on the Polish direction, remains a major problem for the Ukrainian economy. Agricultural exports by trucks currently account for only 1% of agricultural exports, while in the summer of 2022 it exceeded 15%.

Sources: Ministry of Infrastructure, Ministry of Agriculture, State Custom Service, UN, Dragon Capital estimate.

# SECTORAL ANALYSIS

## IT exports at lowest level since 2021



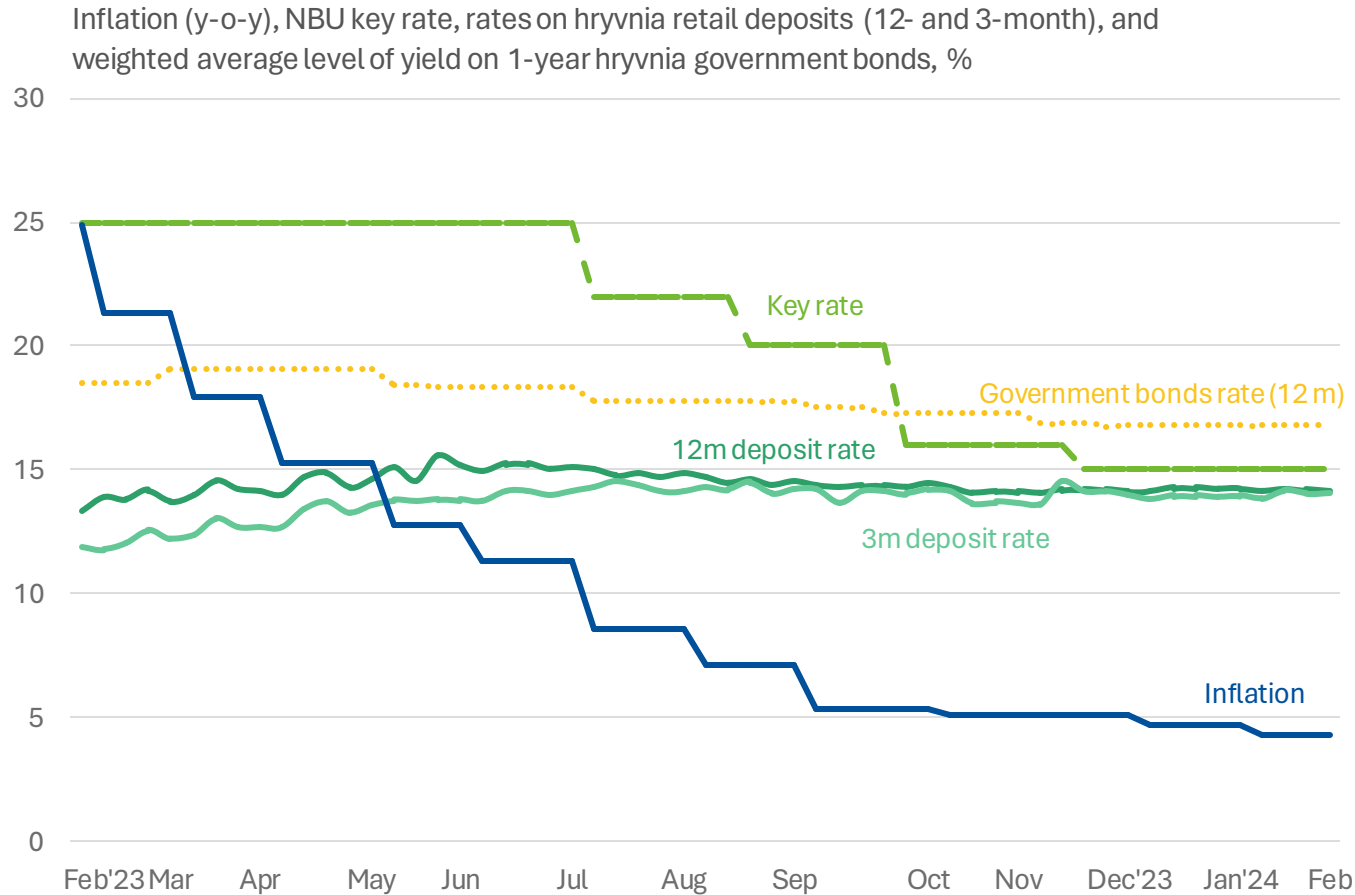
- In January, the seasonal decline in activity on the IT sector was compounded by a downward trend in the industry. As a result, exports of IT services dropped to \$508 million, the lowest level in 32 months.
- The share of IT exports in national exports of services has reached its lowest level since the beginning of the full-scale invasion, amounting to 37.5%.

Sources: NBU, CES calculations

# MONETARY AND FX SECTOR

# MONETARY AND FX SECTOR

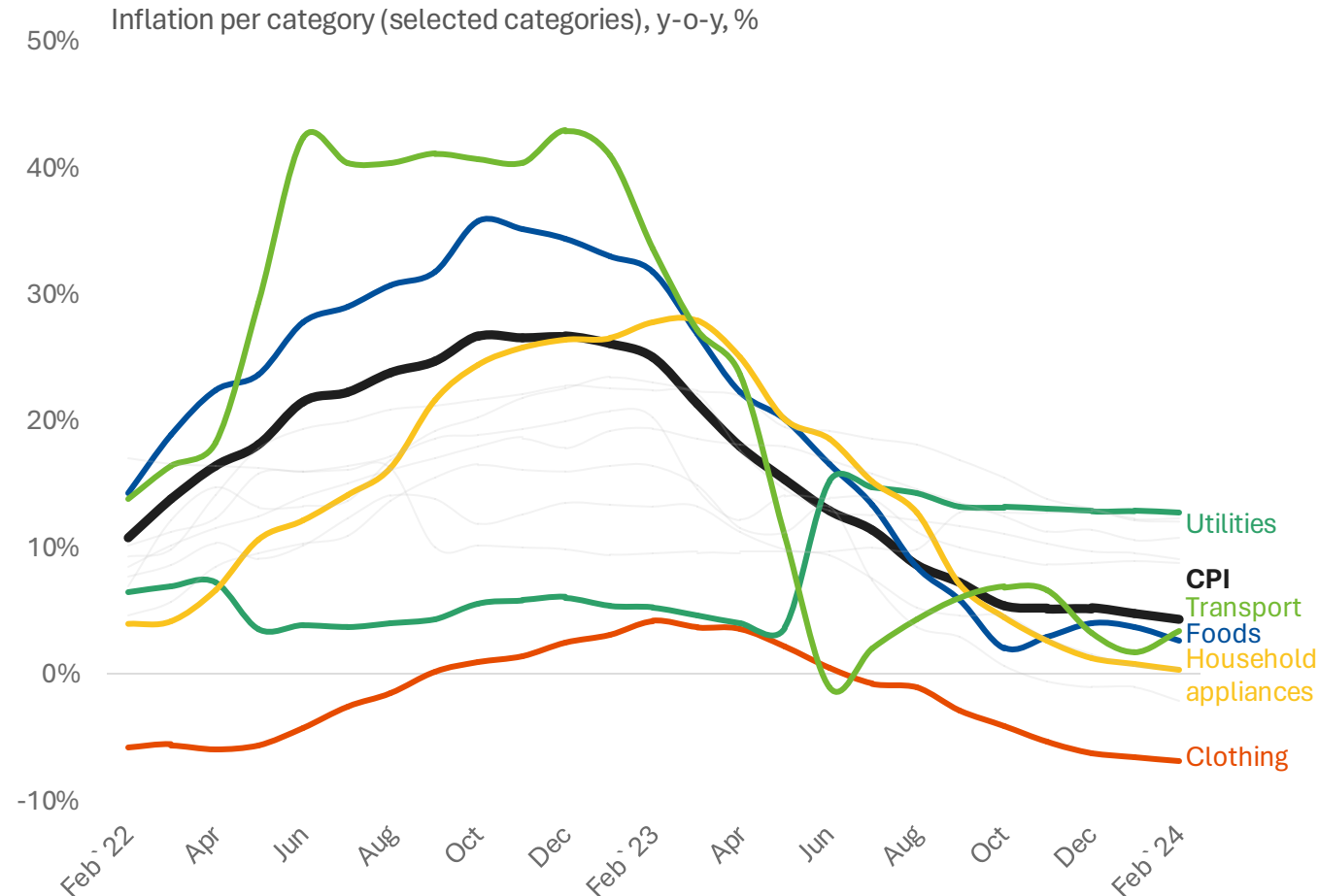
## NBU decreases the key rate to 14.5%



- **NBU cuts key policy rate to 14.5%, effective March 15, 2024.**
- Lower inflation, stable FX market, and positive outlook for external aid pave the way for an earlier interest rate easing.
- NBU reduces 3-month CD rate by 1.5 pp to 17.5% and refinancing loans by 1.5 pp to 19.5%.
- The interest rate on overnight CDs will continue to equal the key policy rate.
- The yield of one-year hryvnia war bonds, as well as 3- and 12-month deposits, have remained at the same level as in January 2024.

# MONETARY AND FX SECTOR

## Inflation slows down; CPI 4.3% y-o-y in February 2024



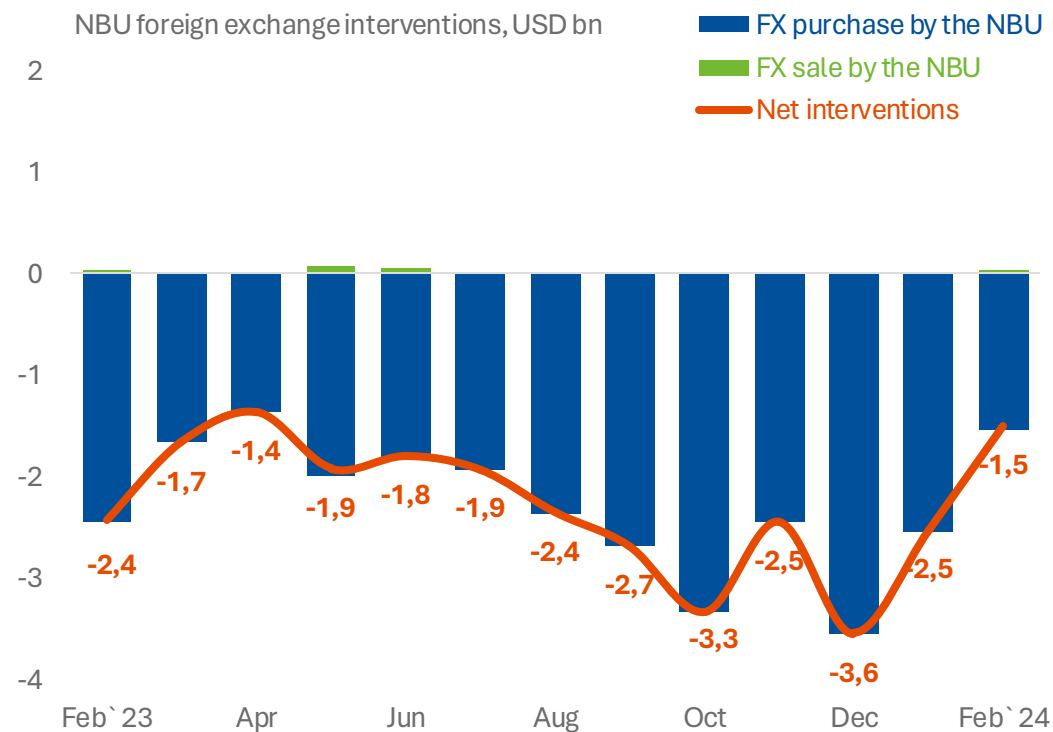
Source: State Statistics Service of Ukraine

- In February 2024, inflation was recorded at its lowest level since 2020 – **4.3% y-o-y**.
- Over the past month, prices have fallen the most among food products: eggs (-3.5%) and sugar (-2.2%), and non-food goods – clothing and footwear (-3.5%) and railway public transport (-3.5%).
- Prices have increased the most among food products: vegetables (+4.4%) and butter (+2.8%). Among non-food – restaurants and hotels (+1.1%) and other products and services (+1%).
- As expected, inflation continued to decline in February. However, temporary factors that eased inflation are fading, while rising wages will drive price growth.

# MONETARY AND FX SECTOR

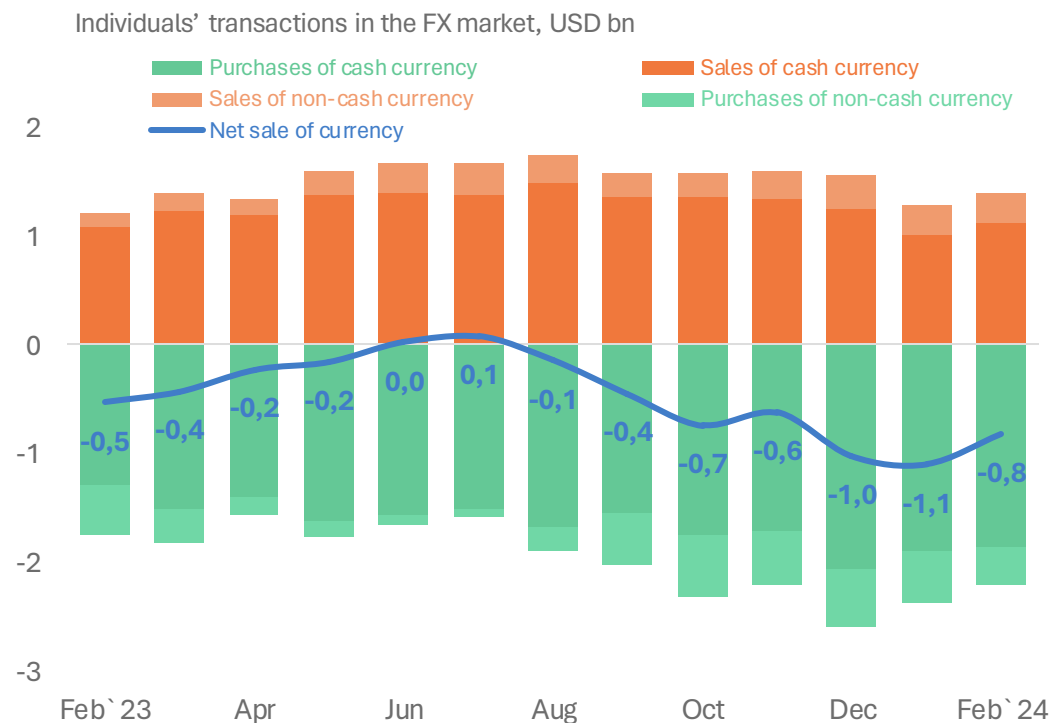
## Lower official financing reduced international reserves, but they remained adequate

In February, international reserves fell by 3,8% to over \$37.1 bn (4.9 months of import coverage) due to NBU FX interventions to preserve exchange rate sustainability and FX debt repayments, which were partially offset by international aid.



Source: NBU

In February, FX demand decreased due to controlled budget spending, stable exports with smooth sea routes, resumed electricity exports, and improved household exchange rate expectations amidst reduced uncertainties about external financial support.



# MONETARY AND FX SECTOR

## Spread between the cash market and official exchange rates minimised



Source: NBU, Ministry of Finance

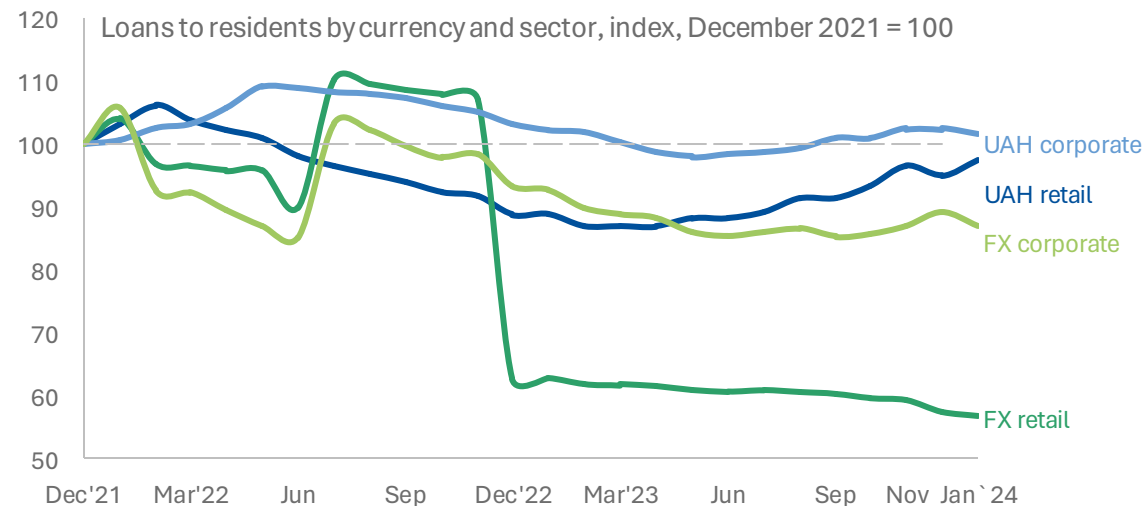
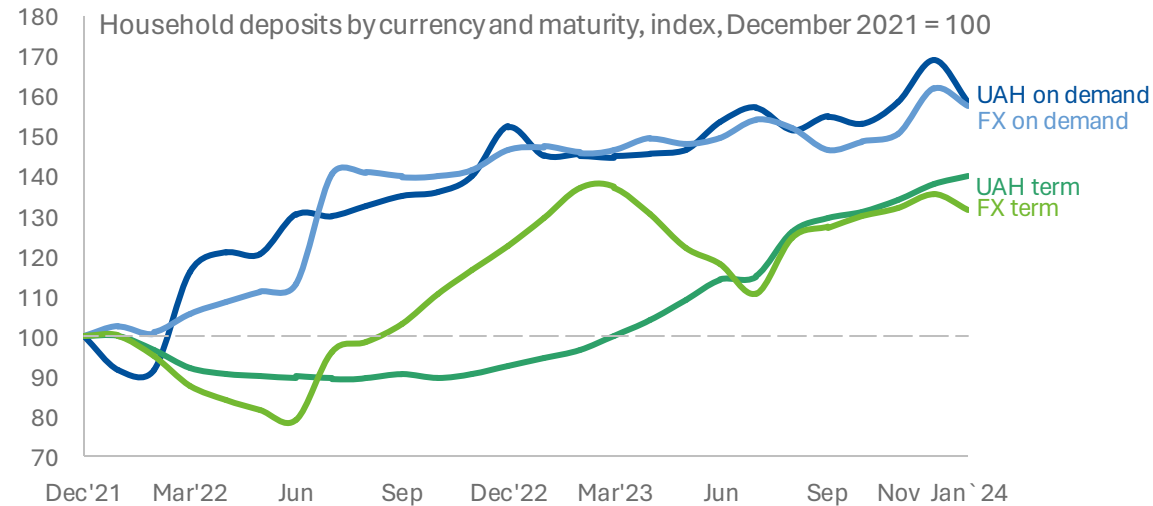
- In February, the official exchange rate of the hryvnia against the US dollar remained nearly unchanged from January. The spread between the cash market and official exchange rates stayed below 1.4%, decreasing to 0.8% by month's end.
- For over five months now, the NBU has maintained a managed exchange rate flexibility regime. Since adopting this regime, bank operations without NBU involvement have notably increased.
- Considering the stable market conditions, the NBU proceeded to relax currency restrictions, updating and fine-tuning specific measures.



# BANKING SECTOR

# BANKING SECTOR

## January was marked by seasonal decline of hryvnia deposits and stability of loans

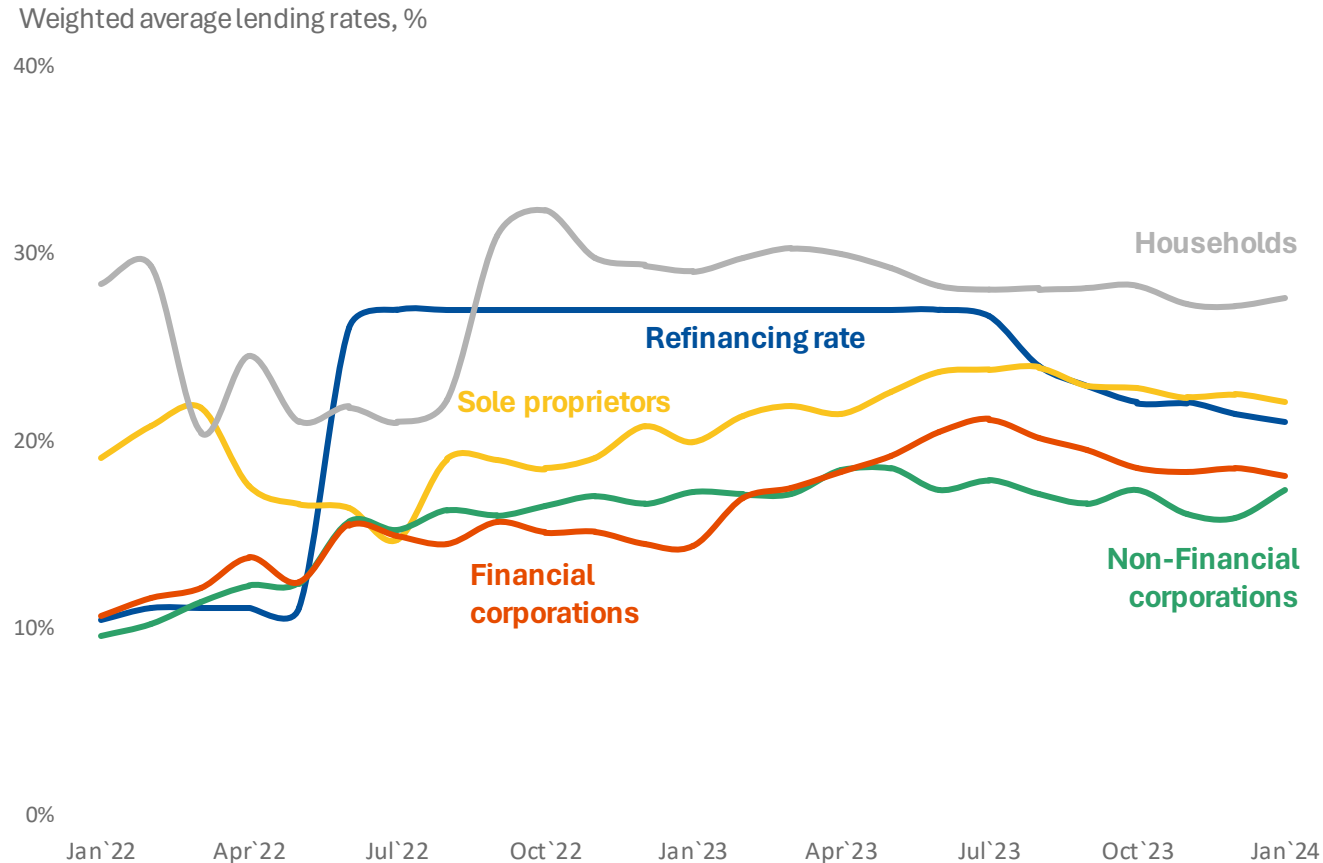


Source: NBU

- The demand for hryvnia assets remained strong. Specifically, following a seasonal decline in January, the growth of individual hryvnia deposits bounced back in February.
- New hryvnia deposits continue to be dominated by deposits with maturities of three to six months.
- The net hryvnia corporate loan portfolio has expanded over the last two quarters of 2023, driven by increased demand. In Q4, loans grew by 2.7%, nearly offsetting the year's initial decline of (-0.7%).
- Notably, hryvnia loans to SMEs showed the most rapid growth, at +6.8% q-o-q and +12.4% y-o-y, making up 57% of the total net hryvnia business loan portfolio.
- As before, hryvnia loans were mostly issued under the program Affordable Loans 5–7–9%.

# BANKING SECTOR

## Non-subsidised loans are becoming more affordable



Source: NBU, monthly average

- Under the NBU's updated operational framework for monetary policy, the **refinancing rate equals = key policy rate + 6 p. p.**
- The reduction of the key policy rate led to more **affordable lending**, causing a decrease in the weighted average interest rates on hryvnia loans for sole proprietors (to 22%) and financial corporations (to 18%) in January 2024.
- While interest rates on hryvnia loans to households decreased, they still stayed notably higher compared to loans to businesses and sole proprietors, primarily due to the prevalence of unsecured and high-risk loans.

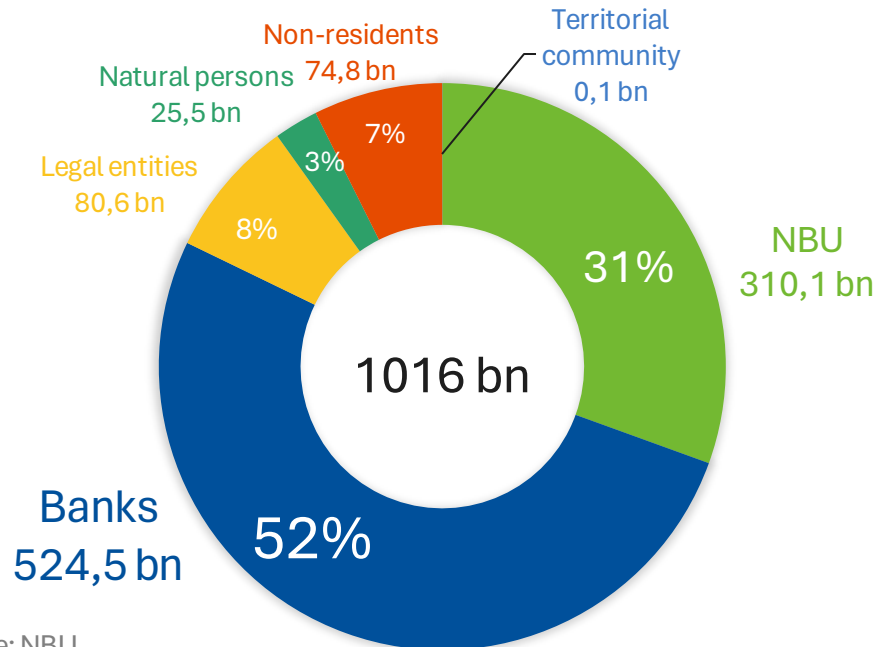
# BANKING SECTOR

## Domestic government debt securities

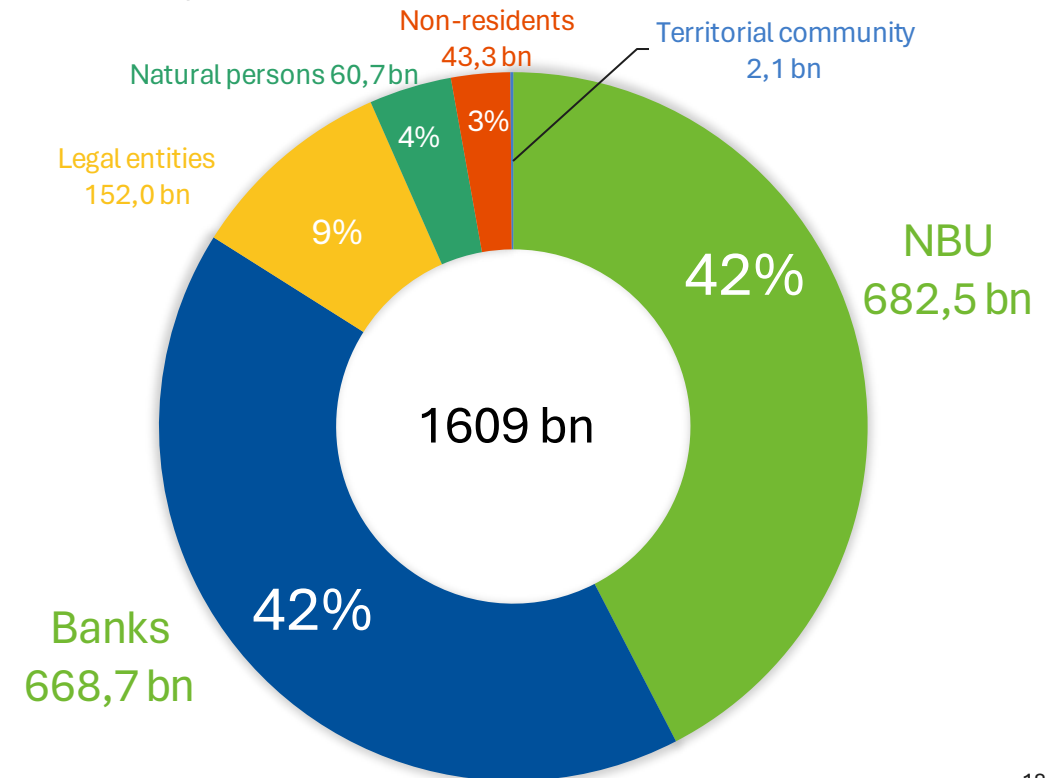
Since the beginning of 2024, Ukraine's government has borrowed nearly UAH 74 billion through auctions for the sale of domestic government debt securities, totalling over UAH 892 billion since the imposition of martial law.

NBU remains the biggest holder of domestic bonds by its outstanding nominal value due to the government debt financing in 2022. However, the domestic debt market have revived in 2023 thanks to joint efforts of the government and NBU.

Domestic bonds by outstanding nominal value, UAH bn, as of February 24, **2022**



Domestic bonds by outstanding nominal value, UAH bn, as of February 29, **2024**



Source: NBU



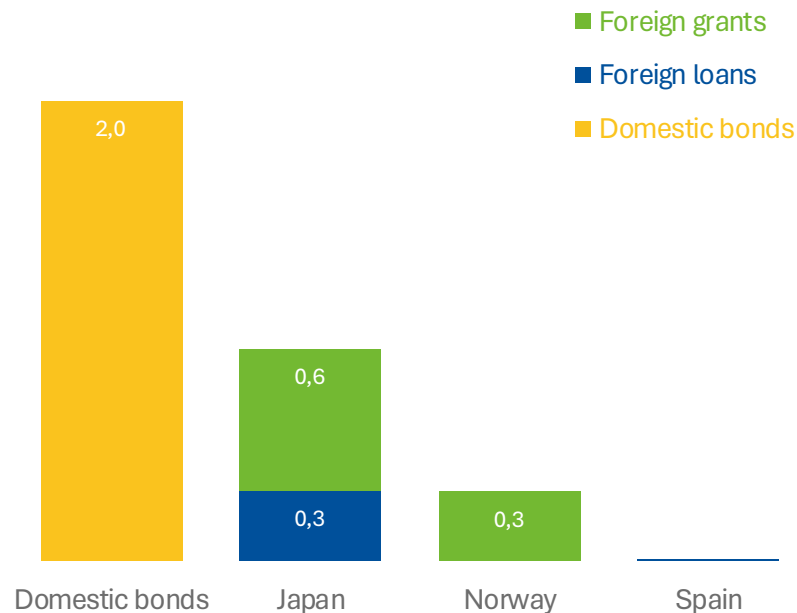
# FISCAL SECTOR

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## Only \$0.8 bn of foreign financing in February

In February, Ukraine received just \$0.8 bn of foreign financing. \$511 m from Japan (\$304 m grant and \$207 m loan), \$295 m grant from Norway and \$3 m loan from Spain were disbursed.

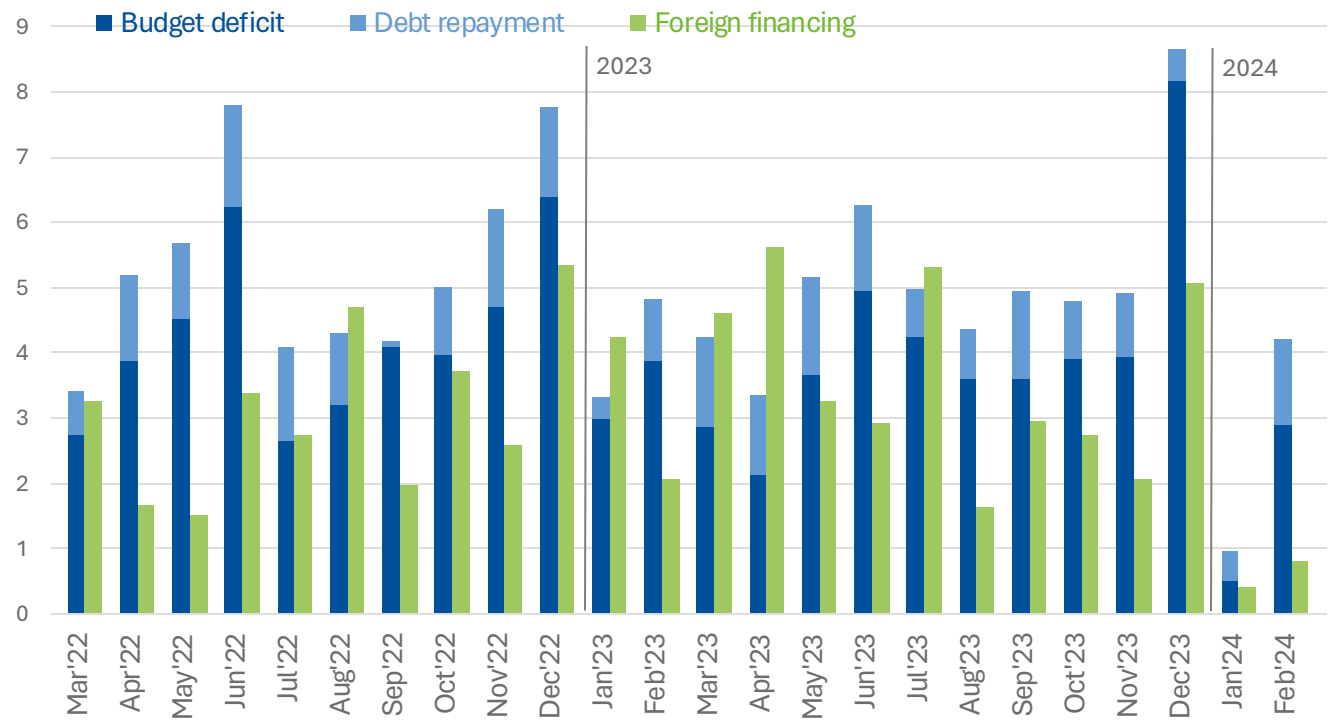
2023 additional financing of Ukraine's state budget as of February 29, USD bn



Source: Ministry of Finance

Foreign financing continues to be much lower than needed to cover the state budget financial needs which returned to normal wartime levels. State budget deficit amounted to \$2.9 bn, and debt repayment needs to \$1.3 bn in February. Foreign financing is expected to increase in March.

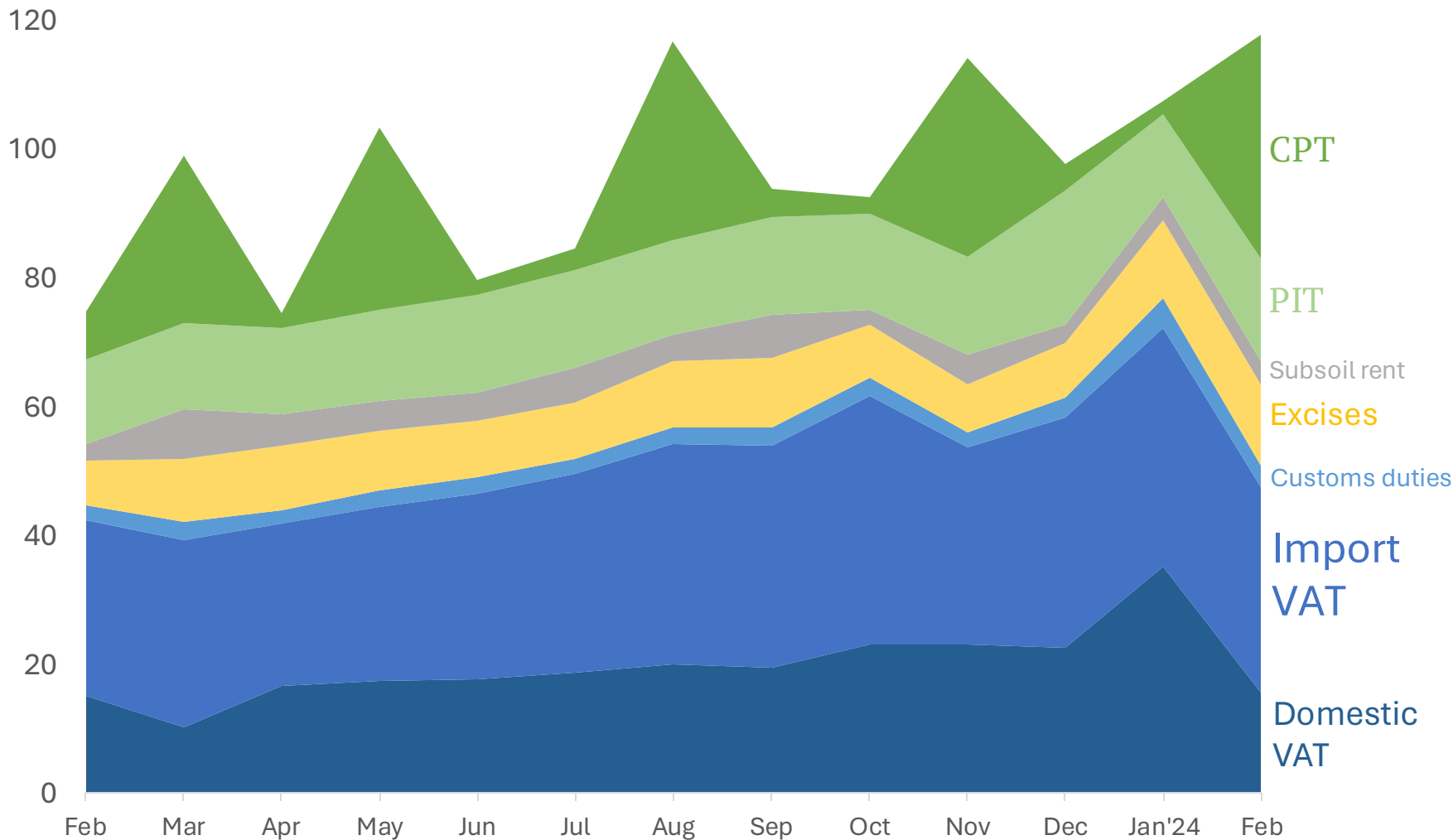
Foreign financing, state budget deficit and debt repayment, \$bn



Source: Ministry of Finance, NBU, CES calculations

# FISCAL SECTOR – TAX REVENUES

Weak VAT revenues offset by CPT from banks and excises



Tax revenues of state budget in February were UAH 117.6 bn

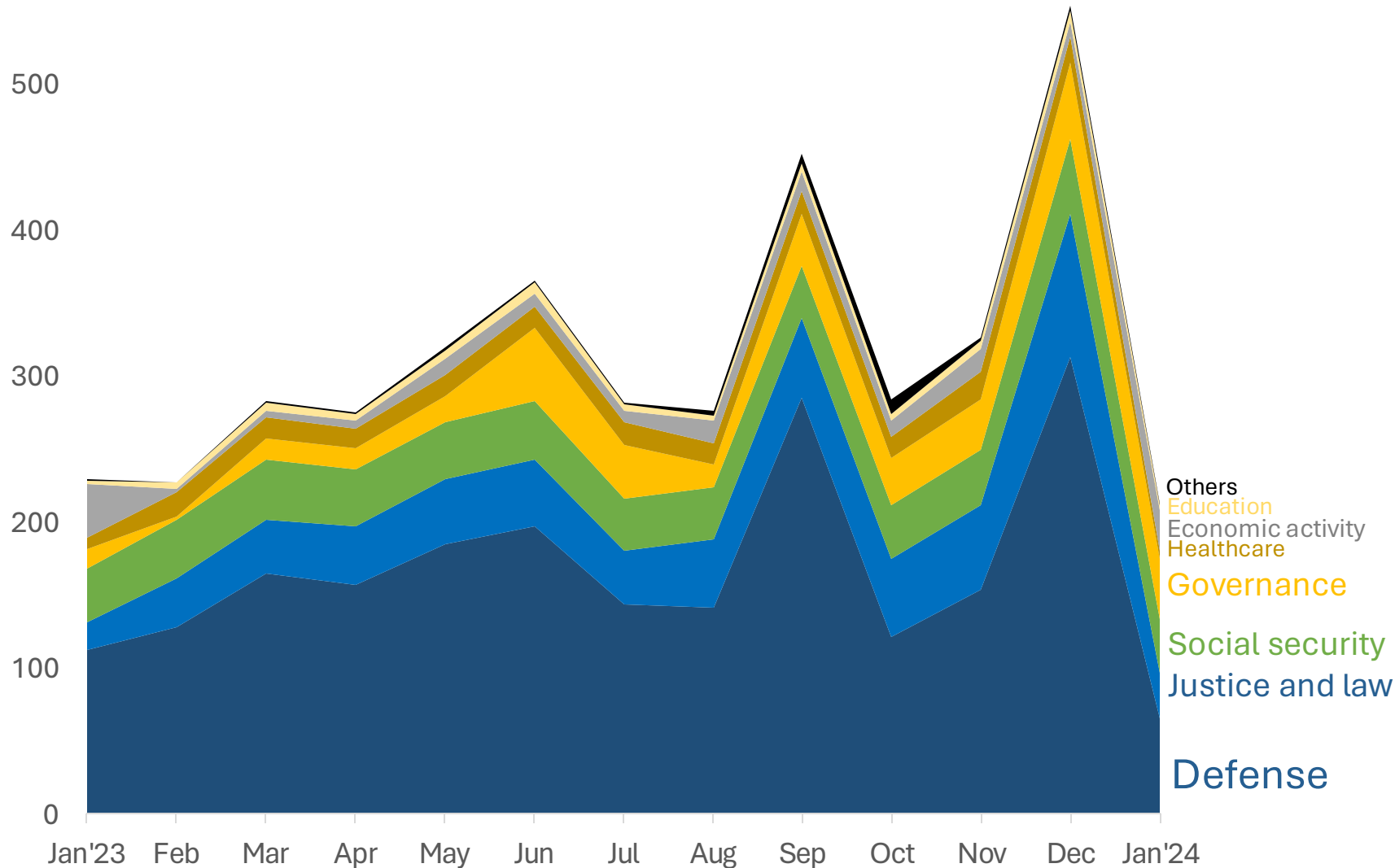
- taxes from consumption slumped by 29% (-25 UAH bn), lowest since July 2023, due to weak domestic VAT revenues

- offset by CPT revenues of UAH 34.7 bn (of which 26.1 bn – 50% bank profit tax) and historically high excise revenues (UAH 12.6 bn)

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

# FISCAL SECTOR – EXPENSES

600 January expenses at lowest since the invasion



State budget expenses in January hit record low UAH 158 bn, only 49% of avg monthly expenses for 2023:

- defense spending down from UAH 313 bn in Dec'23 to UAH 65 bn in Jan'24
- other functions decreased x2-5, except social security, which remained at average level.

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

# FISCAL SECTOR – VAT REFUNDS TIMELINESS

## VAT is refunded timely despite slip up in February

Distribution of VAT refund amounts by days, % of monthly total refund

	Days between application and refund of VAT to bank account										60+	Total, UAH bn
	0-10	11-20	21-30	31-40	41-50	51-60	61-70	70-100	100+			
<b>2020</b>	1	6	7	43	14	5	17	6	1	24	<b>142.3</b>	
<b>2021</b>	3	7	10	54	10	1	11	2	1	14	<b>158.5</b>	
<b>2022</b>	0	5	2	25	6	4	7	9	41	57	<b>84.3</b>	
<b>2023</b>	0	1	8	36	12	6	16	10	12	38	<b>132.1</b>	
January	0	0	0	8	0	4	22	18	48	89	<b>19.3</b>	
February	0	0	1	9	59	1	1	15	14	30	<b>6.6</b>	
March	0	0	2	13	38	2	6	25	14	45	<b>14.4</b>	
April	0	0	3	48	14	12	8	14	2	24	<b>11.4</b>	
May	0	0	12	43	3	5	25	9	3	37	<b>9.9</b>	
June	0	0	11	51	1	7	19	3	7	29	<b>9.9</b>	
July	0	0	15	32	29	6	10	6	2	18	<b>9.9</b>	
August	0	0	13	41	2	11	23	4	6	34	<b>8.9</b>	
September	0	0	7	47	5	6	30	2	4	35	<b>10.6</b>	
October	0	8	10	50	2	7	15	6	1	23	<b>9.9</b>	
November	0	0	14	54	2	7	16	2	6	24	<b>10.4</b>	
December	0	1	16	58	2	7	10	3	1	15	<b>10.9</b>	
<b>2024</b>	0	0	13	44	16	7	9	7	4	20	<b>21.9</b>	
January	0	0	10	61	5	6	15	1	2	18	<b>9.8</b>	
February	0	1	15	31	24	8	3	12	6	21	<b>12.1</b>	

In 2023 the situation with VAT refunds normalized. Since October, ~80% of all VAT refund is transferred to business within 60 days from the application.

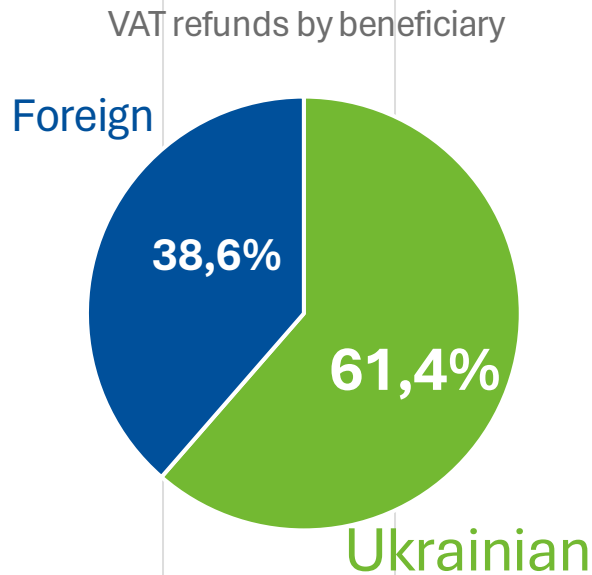
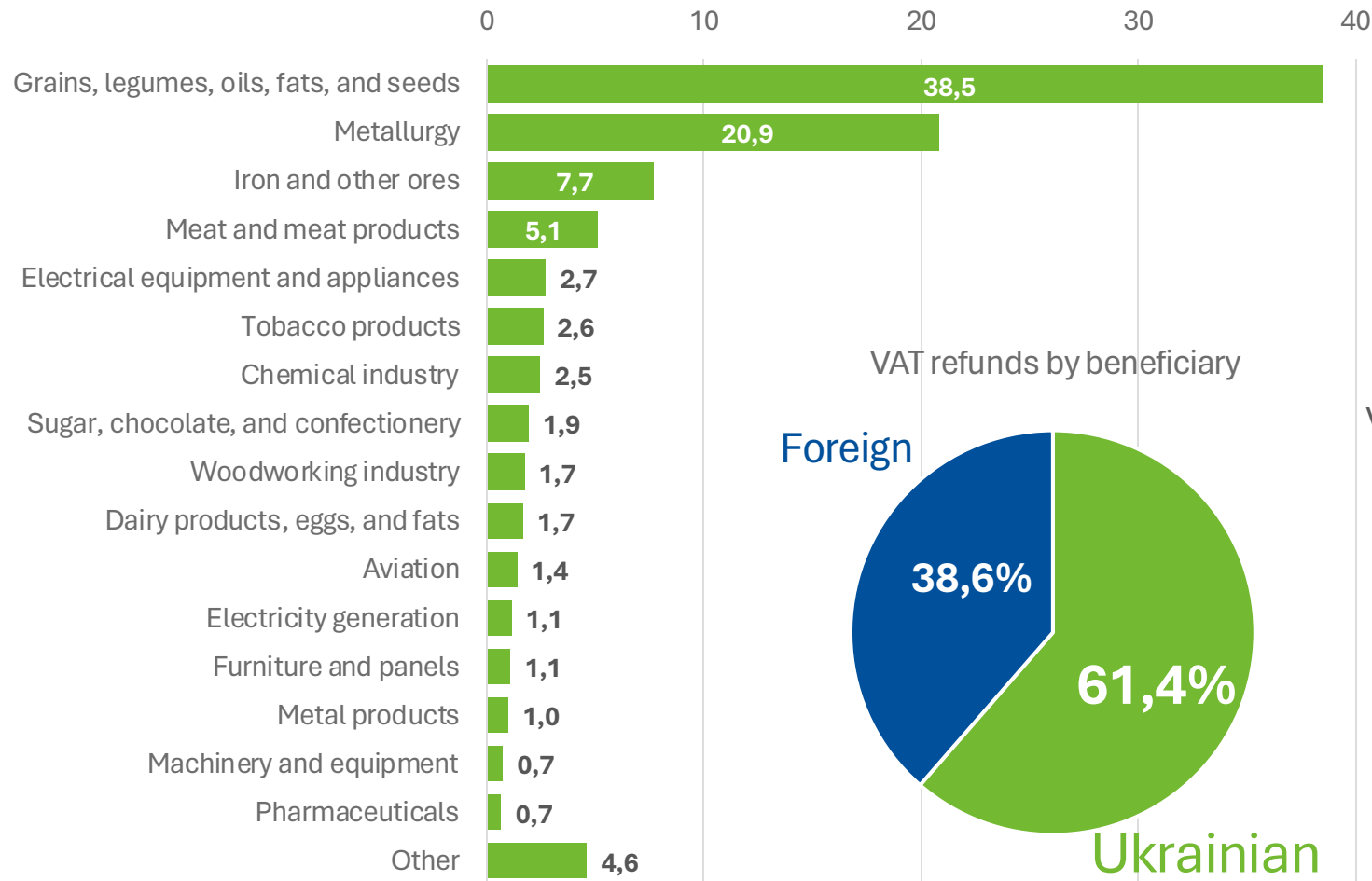
Before the invasion about 1/5 of the applied amounts were rejected. In 2022 – 36% were rejected. In 2023 the rejection rate was close to pre-war levels, averaging at 23%.

In February for the first time in over a year Treasury has delayed a part of the confirmed VAT refund amount (UAH 3.9 bn). The remaining amount was soon transferred on the last day of February, out of business hours, yet it is the sign of tightening liquidity issues due to lack of external financing.

# FISCAL SECTOR – VAT REFUNDS STRUCTURE

50% of VAT refunded to food and agri. Refunds by court rulings increased

VAT refund in 2023 by industry, UAH bn

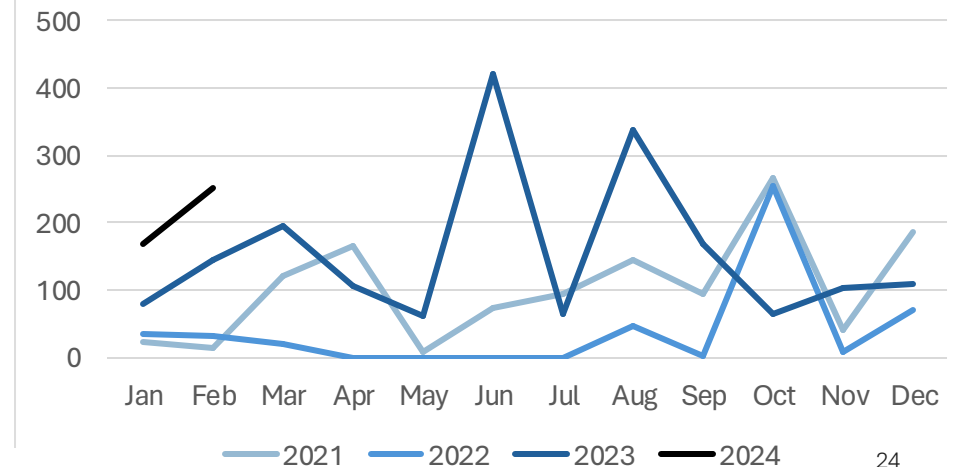


~50% of VAT in 2023 was refunded to agri and processed food exporters.

Iron and steel industry received 22% of refund, while having only 10% of exports by value.

Mid 2023 and 2024 saw significant increase in VAT refunds awarded by court rulings compared to pre-war levels.

VAT refunds by court rulings, UAH mln



Source: Ministry of Finance

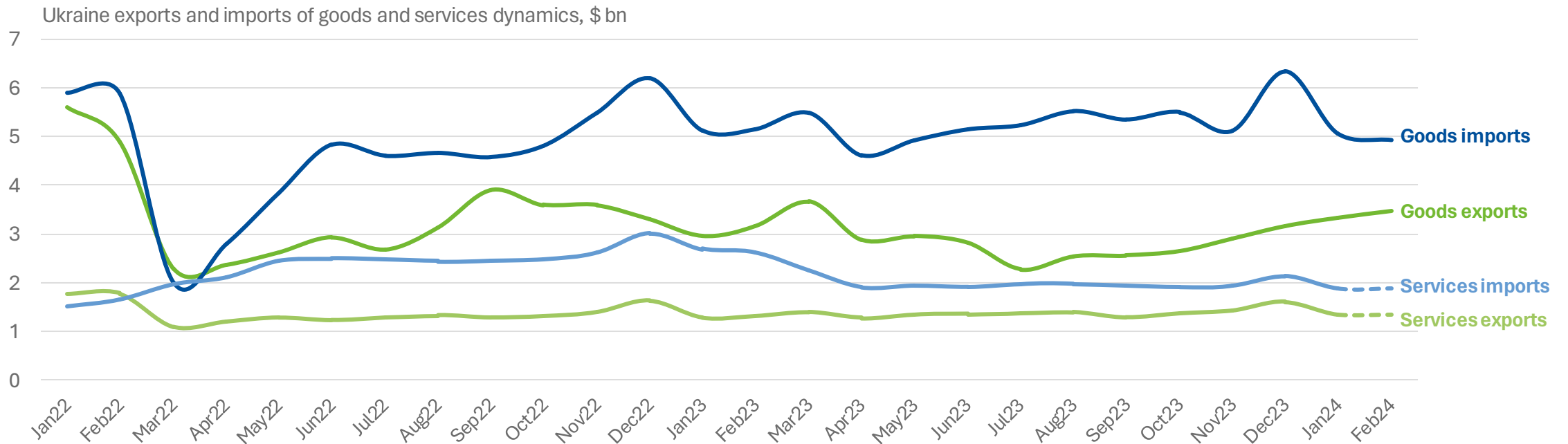


# SPECIAL TOPIC: FOREIGN TRADE

# FOREIGN TRADE VOLUMES

## Ukraine reduces trade deficit to \$1.5 bn

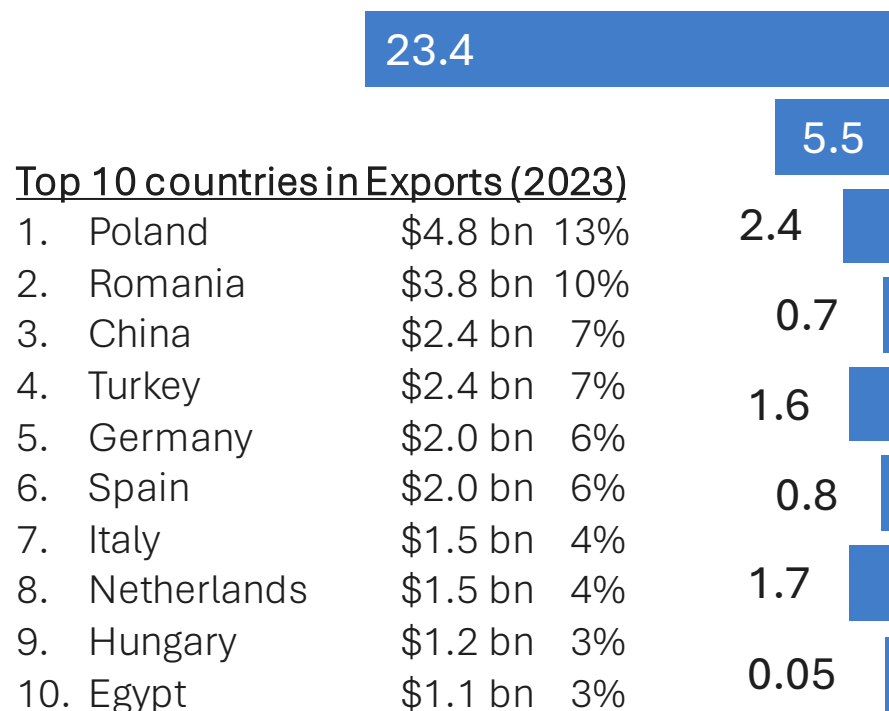
- In February 2024, foreign trade in goods remains at \$8.4 bn, according to the latest figures.
- A moderate decline in merchandise exports was offset by a comparable increase in imports, resulting in a trade deficit of \$1.5 bn, the lowest level in 16 months
- The volume of foreign trade in services in January fell to \$3.2 bn, which is only 5% higher than the minimum of recent years recorded in March 2022. According to the NBU, in January, services imports amounted to \$1.87 bn, exports to \$1.35 bn.



Source: National Bank of Ukraine; except for February 2024 data – State Customs Service, CES calculations and estimations.

# FOREIGN TRADE IN FIGURES: GEOGRAPHY

## Exports, \$ bn



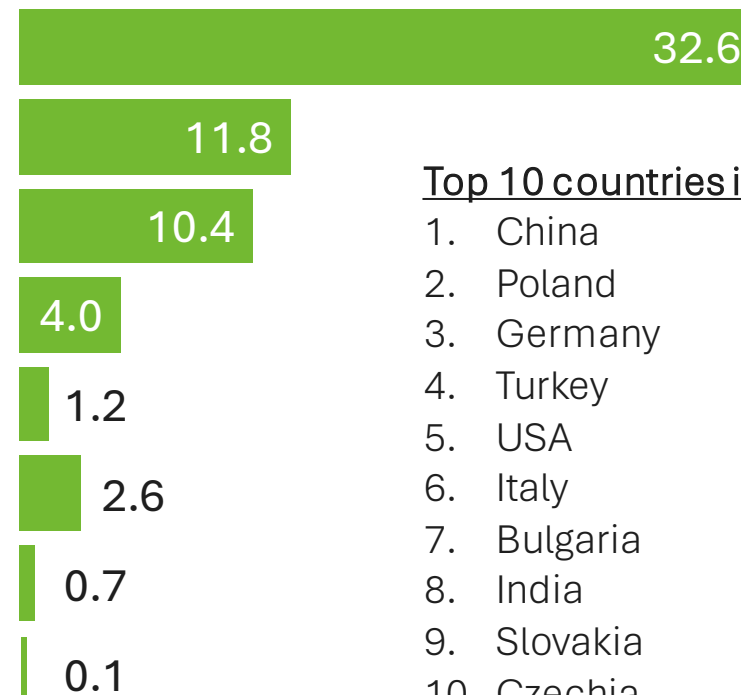
**\$36.2 bn**

## Region



**TOTAL**

## Imports, \$ bn



**\$63.5 bn**

# KEY EXPORTED GOODS IN 2023

 Agriculture

 Natural resources

 Machinery

## 1. Grain: \$8.3 bn (23%)

Corn	\$5.0 bn
Wheat	\$2.9 bn
Barley	\$362 m
Buckwheat, millet	\$22 m
Sorgo	\$13 m



## 2. Edible oils & fats: \$5.6 bn (16%)

Sunflower oil	\$5.0 bn
Rapeseed oil	\$316 m
Soybean oil	\$215 m
Margarine	\$34 m
Animal fats	\$21 m



## 4. Oilseeds: \$2.8 bn (8%)

Soybeans	\$1.3 bn
Rapeseed	\$1.2 bn
Sunflower seed	\$278 m



## 8. Food industry waste: \$1.4 bn (4%)

Oilcake	\$972 m
Soycake	\$283 m
Sugar waste	\$51 m

## 9. Meat: \$893 m (2%)

Poultry	\$800 m
Beef	\$86 m
Pork	\$3 m

## 3. Iron & steel: \$3.5 bn (10%)

Rollled steel	\$1.1 bn
Semi-finished	\$609 m
Seamless pipes	\$525 m
Pig iron	\$471 m
Ferroalloys	\$289 m
Other	\$506 m



## 6. Metal ores: \$1.8 bn (5%)

Iron ore	\$1.8 bn
Titanium ore	\$19 m



## 7. Wood & wood products: \$1.5 bn (4%)

Lumber	\$406 m
Sheet wood	\$210 m
Wood	\$187 m
Other	\$0.7 bn



## 5. Machinery: \$2.4 bn (7%)

Cable & wire	\$796 m
Heating	\$276 m
Pumps	\$121 m

## 10. Furniture: \$681 m (2%)

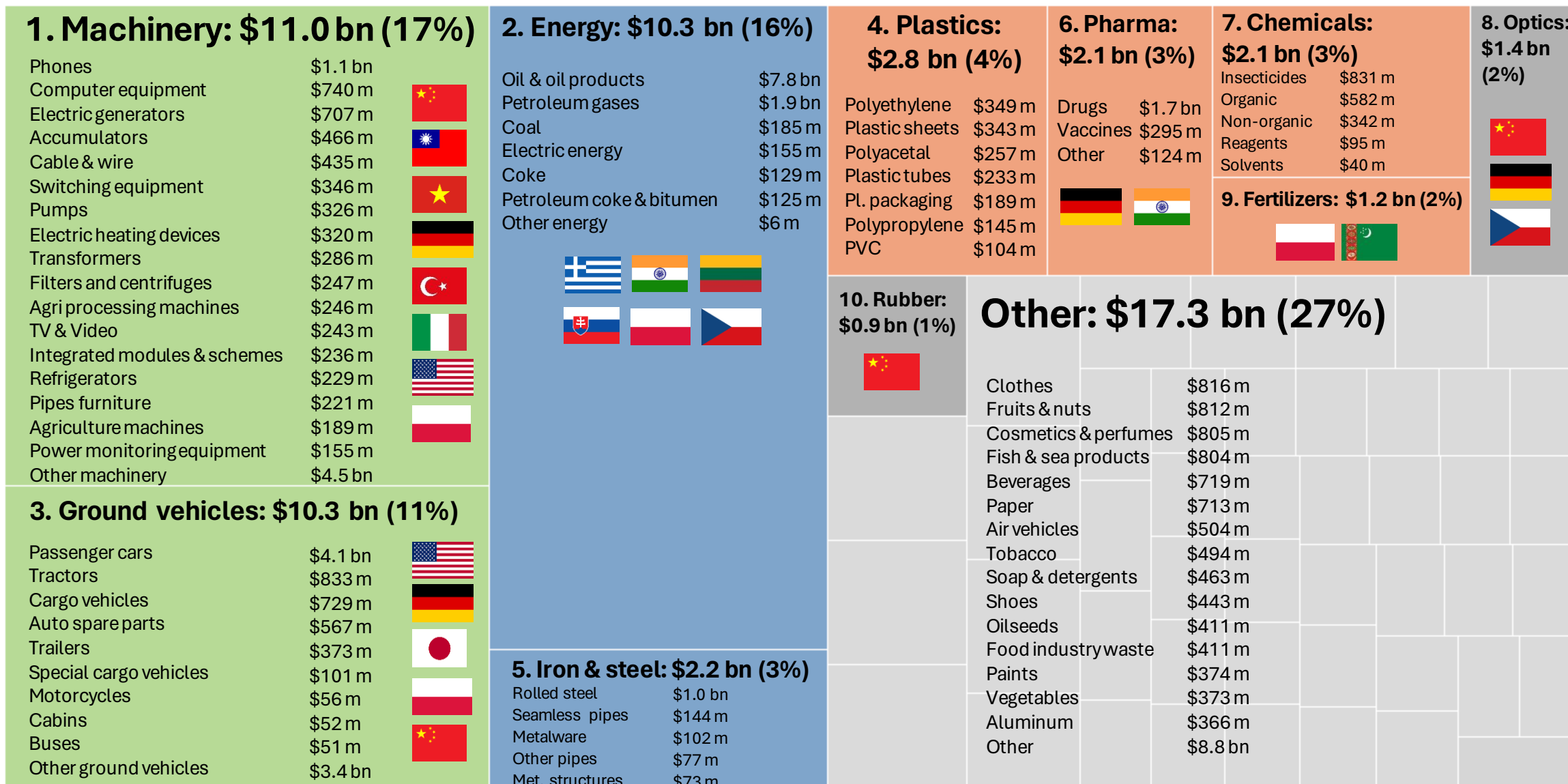
Home furniture	\$645 m
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## Other: \$6.2 bn (19%)

Sugar & confectionary	\$596 m
Milk & dairy	\$404 m
Oil & gas	\$392 m
Cereal food	\$314 m
Beverages	\$283 m
Pharmaceuticals	\$279 m
Plastics	\$278 m
Fruits & nuts	\$257 m
Paper	\$215 m
Other	\$3.2 bn

# KEY IMPORTED GOODS IN 2023

■ Natural resources
 ■ Machinery
 ■ Chemicals

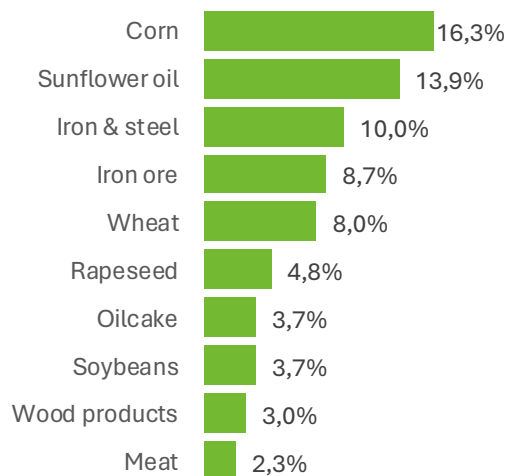


Source: State Customs Service, CES calculations.

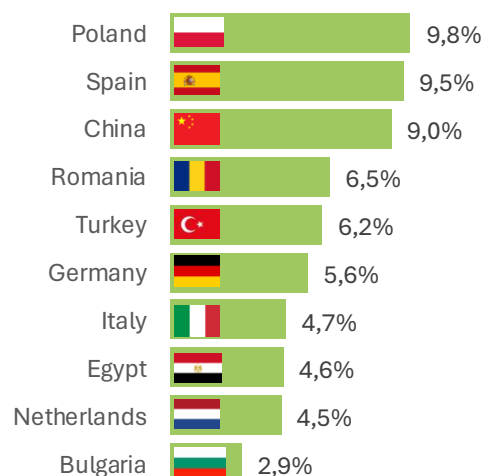
# FOREIGN TRADE IN JANUARY 2024 - SUMMARY

## EXPORT

### Key goods



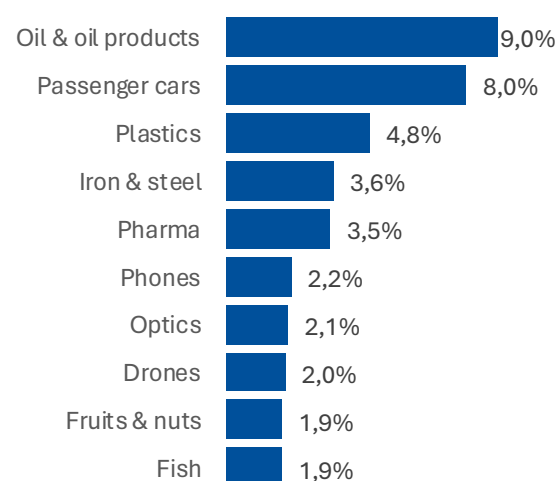
### Key destinations



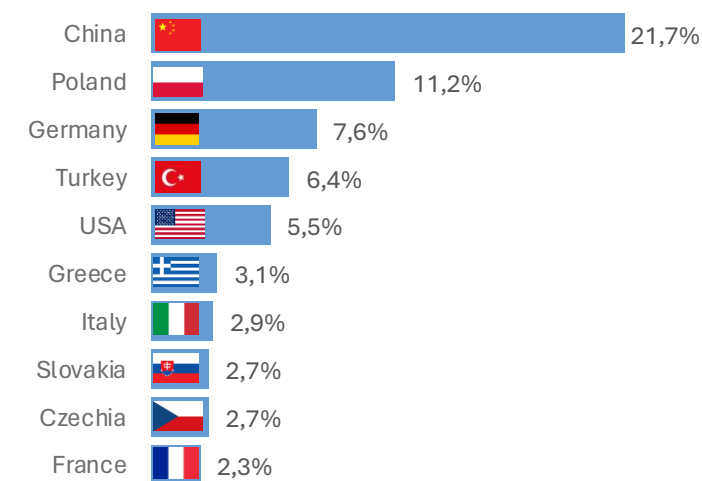
EU countries — 60.0%

## IMPORT

### Key goods



### Key origins



EU countries — 47.8%

▶ **Agricultural goods remain the main component of Ukraine's exports.** In January, corn exports were twice as high as wheat, amounting to \$554 m.

▶ **Spain joined the list of main export destinations** in January. Monthly exports to this country amounted to \$324 m, driven by large supplies of grain. Corn accounted for 47% of this amount, wheat - 32%.

▶ **The share of transport imports in January reached 15%, with passenger cars accounting for the majority. In January, drones are in top-10 imported goods.** Total monthly import is \$99 m, 97% were from China.

▶ **The share of imports from the EU fell below 50%.** The main reason for this was the growth of Chinese imports to 21.7%, compared to 16% in 2023. Chinese imports for the month exceeded \$1.1 bn, which included drones (9%), phones (7%), and passenger cars (6%).



THANK YOU.

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