



Economy review in May

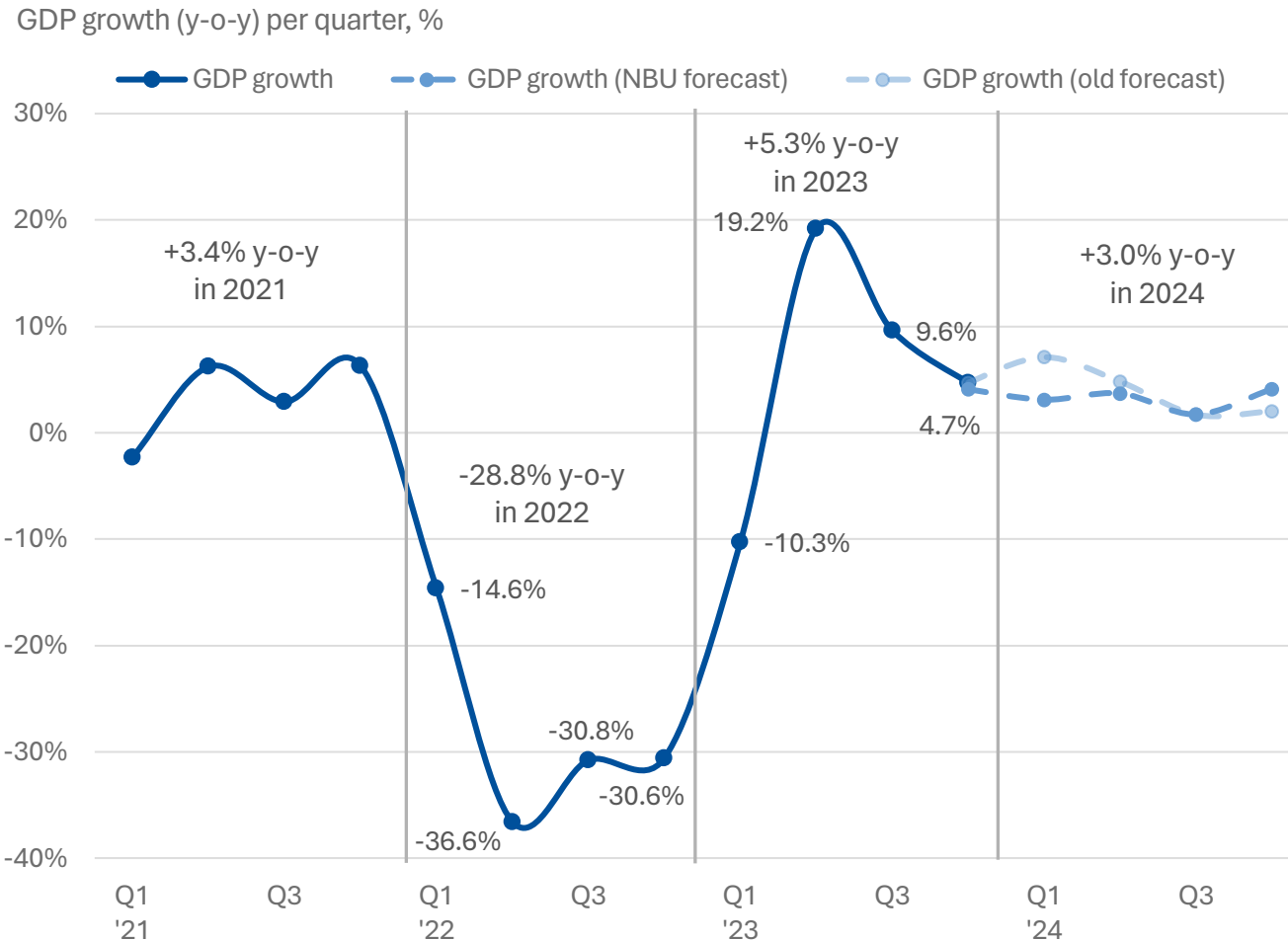
Special topic: Ukraine Recovery Conference

MACROECONOMIC TRENDS



MACROECONOMIC TRENDS

GDP will increase by 3.0% in 2024: NBU forecast



Source: State Statistics Service of Ukraine, NBU

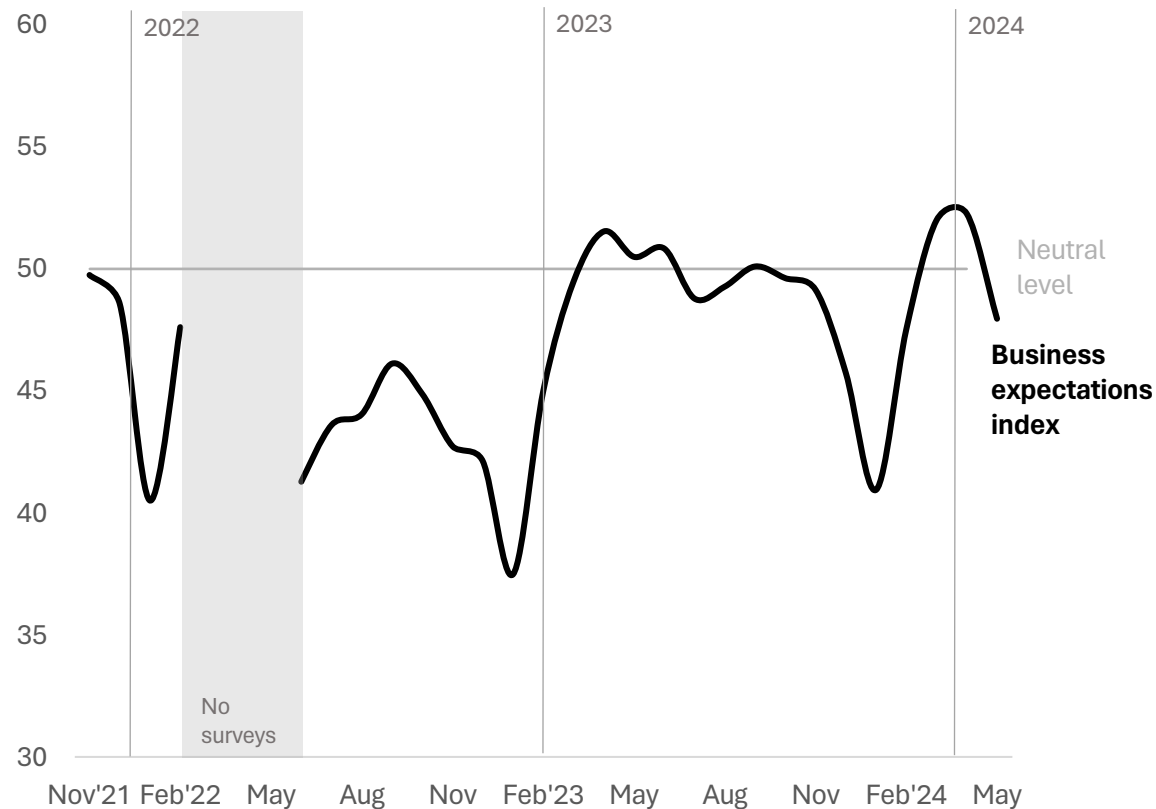
- In 2024, Ukraine GDP will increase by 3.0% y-o-y according to the latest forecast published by the NBU.
- Other forecasts are more positive: +3.2% (World Bank), +4.0% (Dragon Capital) y-o-y in 2024.
- During the Ukraine Recovery Conference, Marlen Madsen of European Commission reiterated their estimate that Ukraine's GDP could increase by 6.2% by 2027 if all reforms and investments proposed by Ukraine Facility are fully implemented.
- Join CES on June 24 to discuss the latest forecasts with Ukraine's top analysts.

MACROECONOMIC TRENDS

Business expectations fell in May

- In May, the NBU’s business activity expectations index fell to 48, compared to 52.3 in April, below the neutral level of 50 points.

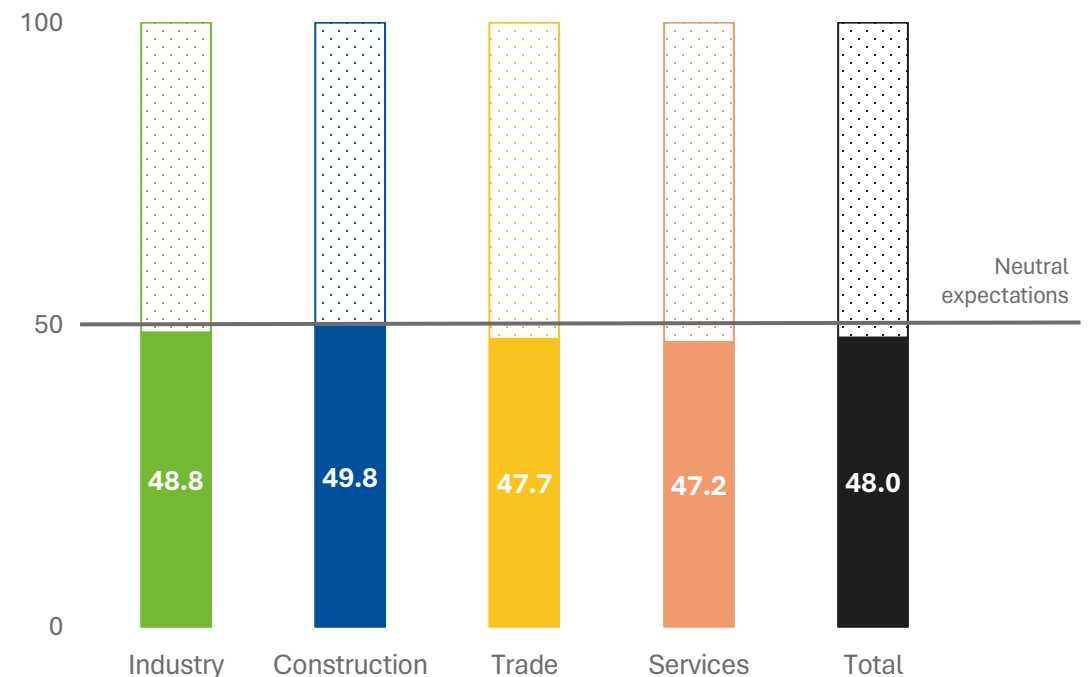
NBU business activity expectations index dynamics



Source: NBU

- Negative expectations prevailed among businesses in all sectors surveyed. Sentiment deteriorated due to the shelling of energy infrastructure, the intensification of hostilities, and uncertainty about the mobilisation of business employees.

NBU business activity expectations index by sector in May



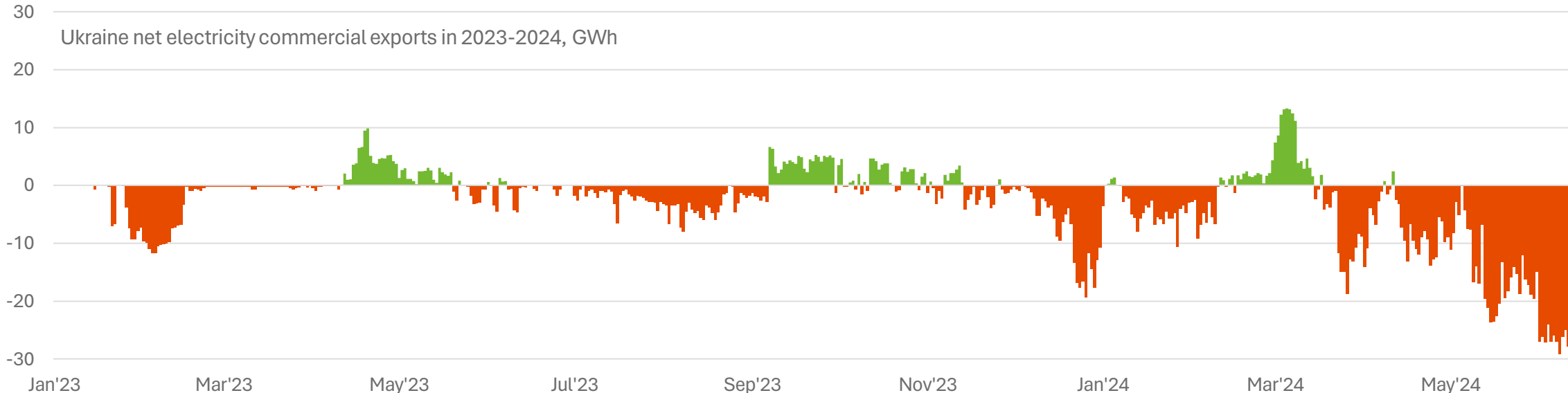


SECTORAL ANALYSIS

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Russia's missile attacks have caused a huge electricity shortage

- Russia continues to attack Ukraine's energy infrastructure. As a result, Ukraine is forced to import record volumes of electricity and to use scheduled and emergency power outages.
- Electricity imports in May became a record for the entire period of Russian aggression and reached 445 GWh. This is almost double the previous highest figure in December 2023.
- In the first third of June, the deficit in the power system increased further, resulting in Ukraine importing a record 24-25 GWh daily, but this is not enough to cover existing demand, so blackout schedules have to be used.
- President Volodymyr Zelenskyy said that Ukraine, with the help of partners, intends to build 1 GW of flexible generation this year and another 4 GW in the coming years. This will be a very difficult task given the existing capacities.

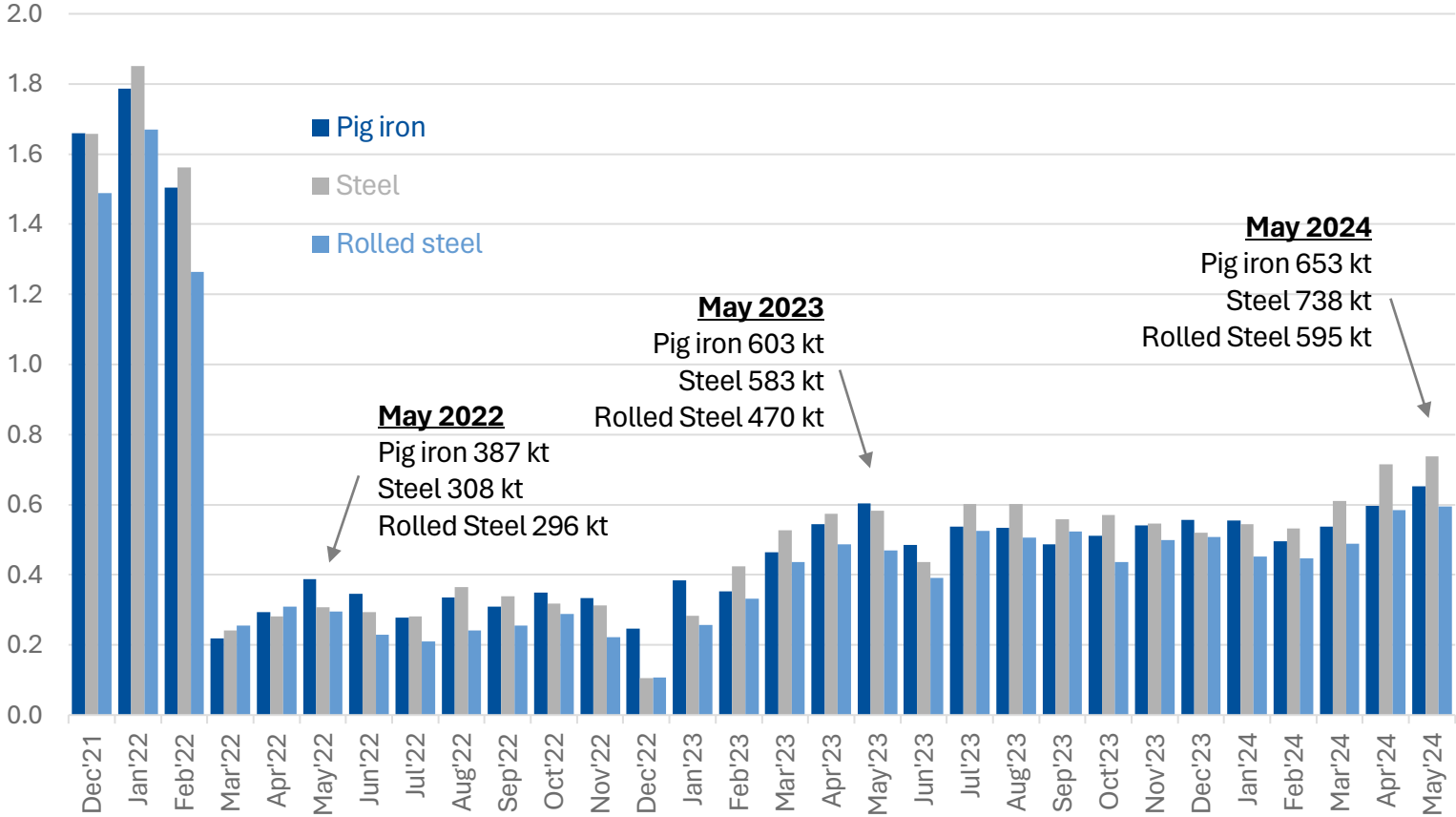


Source: ENTSO-E

SECTORAL ANALYSIS

Steel production reaches 40% of pre-war volumes

Ukraine ferrous production by main categories, mt



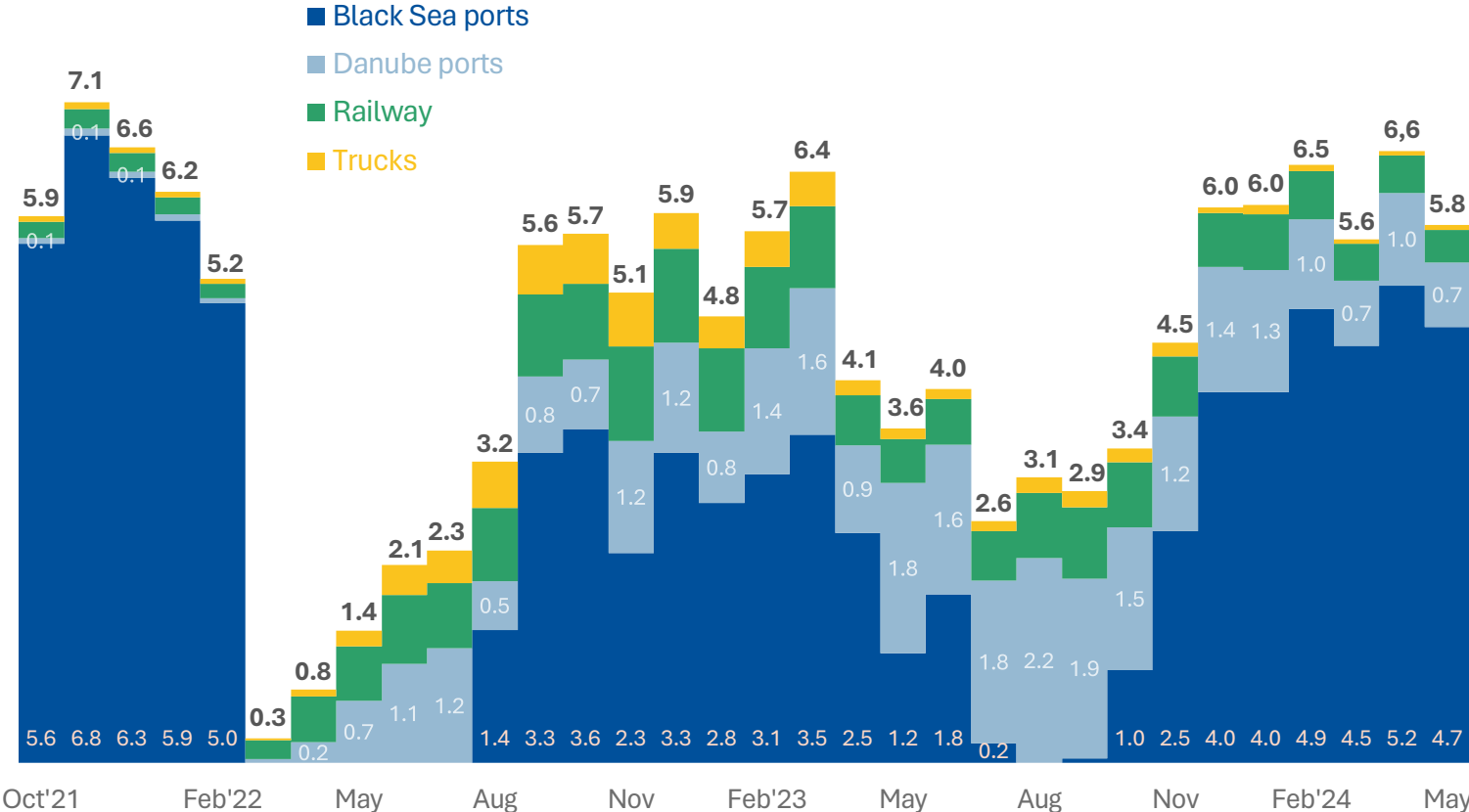
Source: Ukrmetallurgprom

- In May, Ukraine renewed its highs for the production of major steel products during the big War. In particular, 653 kt of pig iron, **738 kt of steel** and 595 kt of rolled products were produced in May.
- **In January-May**, the total production amounted to 2.84 mt of pig iron (+21%), **3.14 mt of steel (+31%)** and 2.57 mt of rolled products (+30%).
- **Exports** of steel products, including semi-finished products and tubes, **accelerated in May**.
- The US government extended the temporary suspension of Section 232 tariffs on Ukrainian steel for another year. This means that steel from Ukraine and steel made in EU from Ukrainian raw materials **will be exempt from the duty**.

SECTORAL ANALYSIS

Agri exports down 12% in May after setting wartime records in April

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

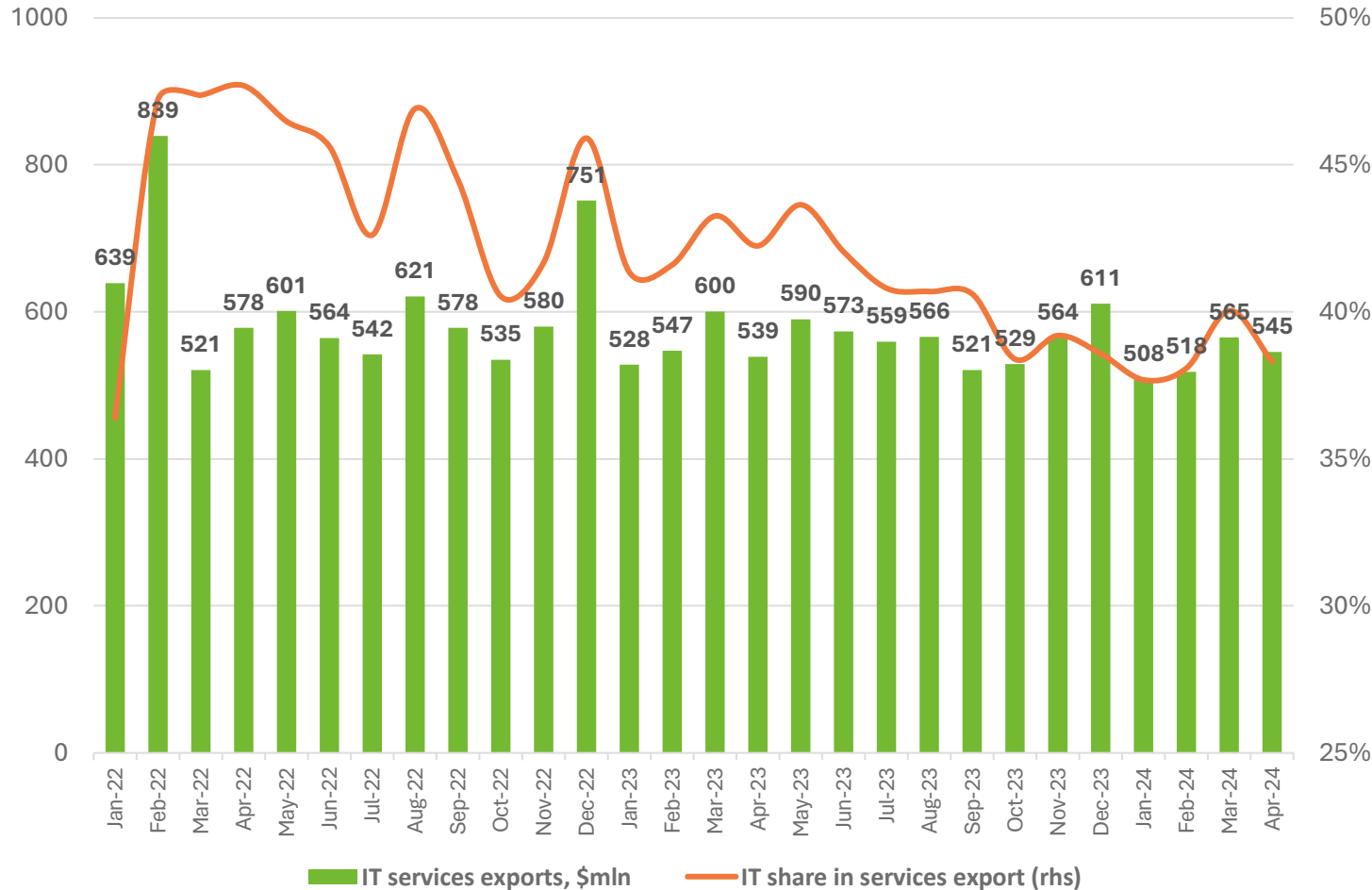


Sources: Ministry of Infrastructure, Ministry of Agriculture, State Custom Service, UN, Dragon Capital estimate.

- **Agricultural exports in May decreased** as expected due to lower sales of last year's grain crop, and now account for less than half of the total physical volume of exports (5.8 mt out of 12.2 mt).
- In May, the **sunflower oil exports increased** by 14% to 714 kt, is the highest level since January 2021.
- The share of agricultural **exports by seaports increased to 81%**, the highest since the full-scale Russian invasion.
- The **occupational administrations** of the southern regions continue to **illegally export Ukrainian grain**, amounting to hundreds of thousands of tons.

SECTORAL ANALYSIS

IT exports declines for the first time in three months



Sources: NBU, CES calculations

- Exports of IT services in April decreased by 3.5% to \$545 million.
- IT services retain leadership in service exports with a share of 38%. The share of transportation services is 24%.
- Ajax Systems and Kyiv School of Economics open an engineering school. Students will study electrical and mechanical engineering, materials science, software engineering, and biotechnology engineering.
- In 2024, 17 000 of potential applicants for a master's degree chose the Information Technology specialty. This is the third most popular subject among Entrance Exam takers with the share of 7%.
- The number of IT vacancies on DOU website reached a 2-year maximum of 5111. This includes a record 198 vacancies in mil-tech.

MONETARY, FX AND BANKING SECTORS



MONETARY AND FX SECTOR

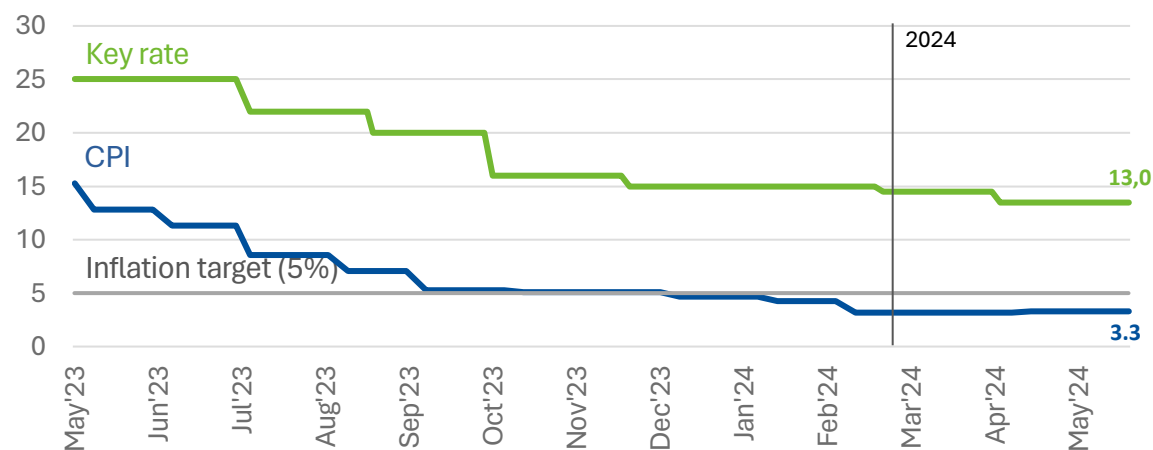
Inflation remains stable – 3.3%, and key rate policy decreases

Key rates as of May 31, 2024 (CPI y-o-y in May 2024)

Indicator	Value, %	Change in May
Government bonds rate (12-m)	14.96	-0.43 p.p.
Key rate	13.00	0.50 p.p.
12-m deposit rate	13.31	-0.63 p.p.
3-m deposit rate	13.54	-0.49 p.p.
Inflation (CPI)	3.30	0.1 p.p.

Sources: NBU, State Statistics Service, UIRD

Inflation (CPI) y-o-y and NBU key rate, %



Source: NBU, State Statistics Service

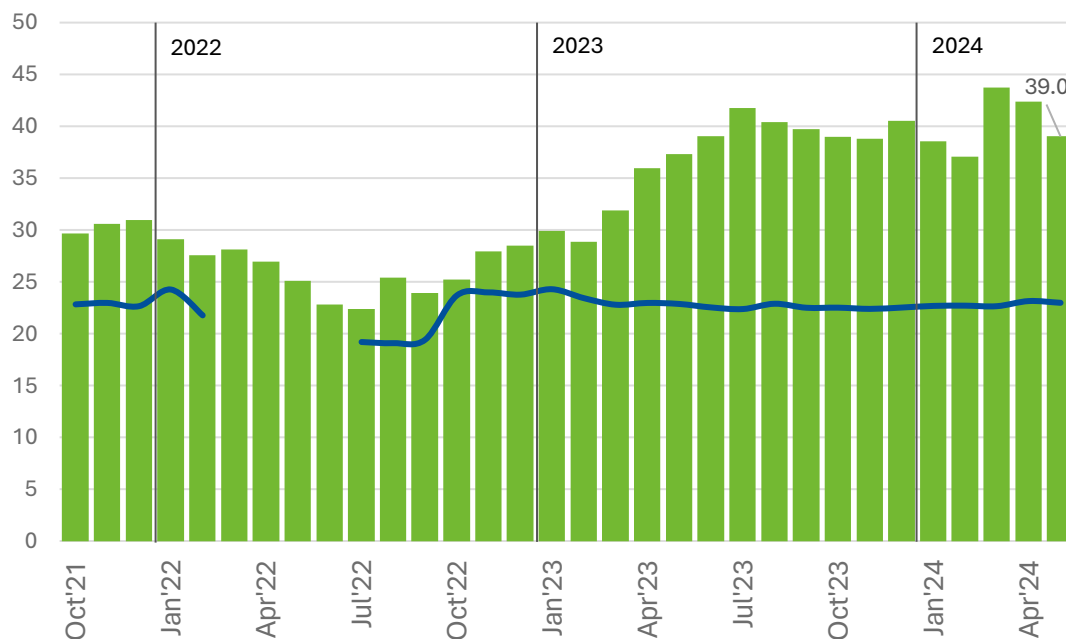
- The NBU decreased the key policy rate to 13% due to subdued inflation, continued improvement in inflation expectations, and the balance of risks for further inflationary dynamics.
- The yield of one-year hryvnia war bonds and the 3- and 12-month deposit rates continued to decrease in response to the lowering of the key policy rate back at the end of April.
- In May 2024, inflation rose to 3.3% year-over-year but remained below the forecast and target range of the National Bank.
- In the coming months, inflation is expected to accelerate somewhat due to the increased price of electricity, likely slightly lower harvests, and further increases in business costs.

MONETARY AND FX SECTOR

International reserves decreased but remain quite high

In May, international reserves decreased by 7.9% to - \$39 bn (5.1 months of import coverage) due to the NBU's FX interventions aimed at maintaining the exchange rate's sustainability and Ukraine's FX debt payments, partially offset by international financial aid.

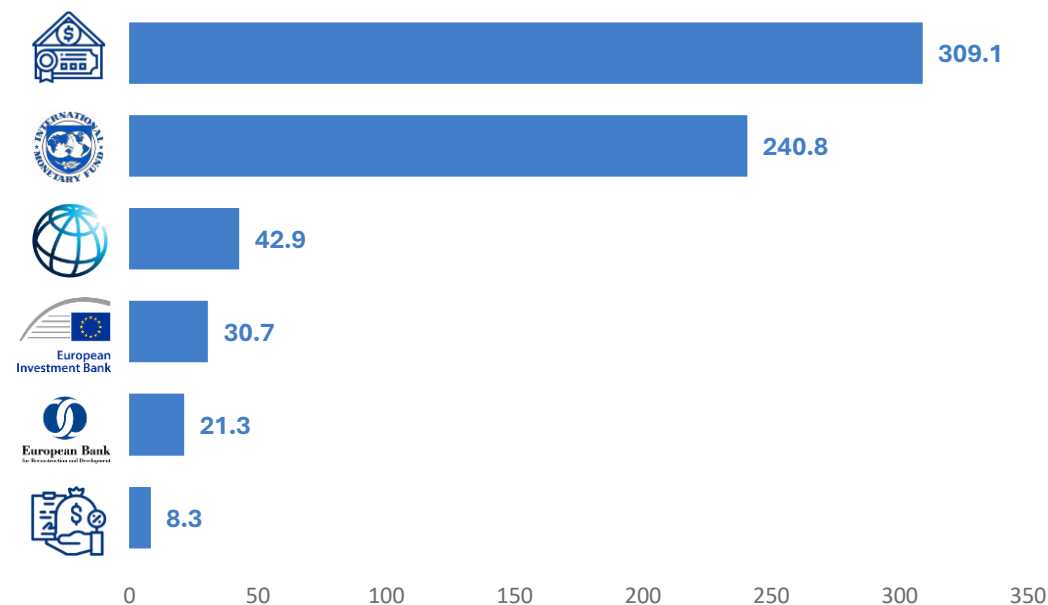
Gross international reserves and their amount needed to cover 3 months of future imports, \$ bn



Source: NBU. In March-June 2022, the NBU did not calculate the coverage of future imports due to the unstable situation

In May, net FX sales were \$3.1 bn, an 35% increase from April. This rise was due to higher demand driven by increased government spending and resumed external aid from March-April. NBU spent \$412.3 ml spent on servicing and repaying the FX public debt.

Expenses on servicing and repaying the FX public debt, \$ ml



Source: NBU

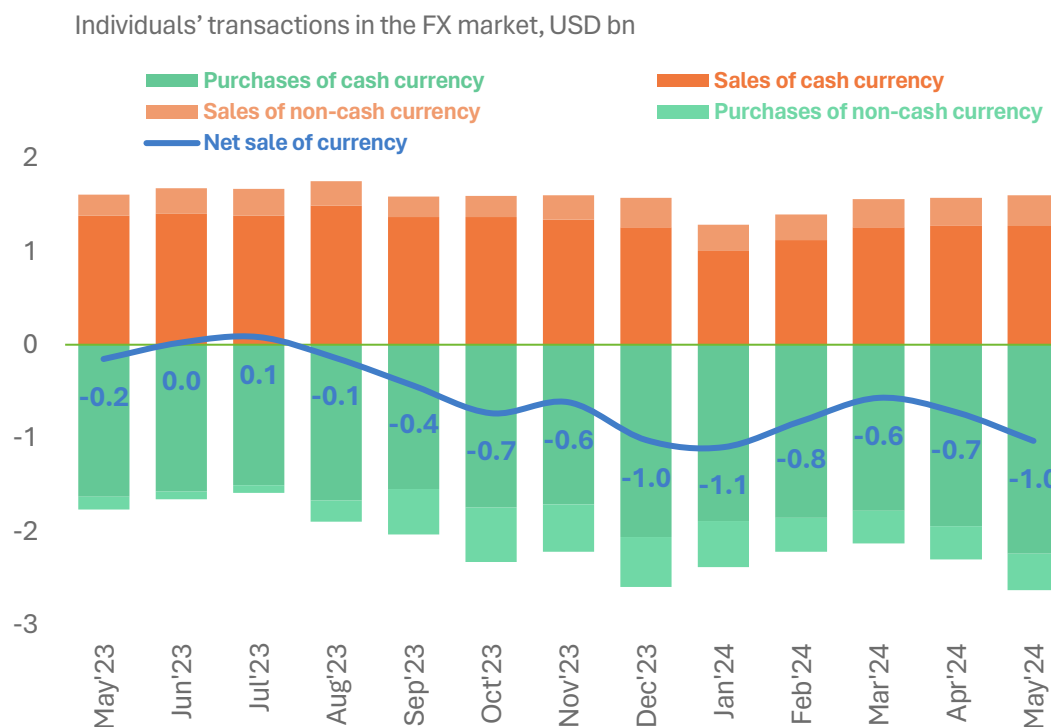
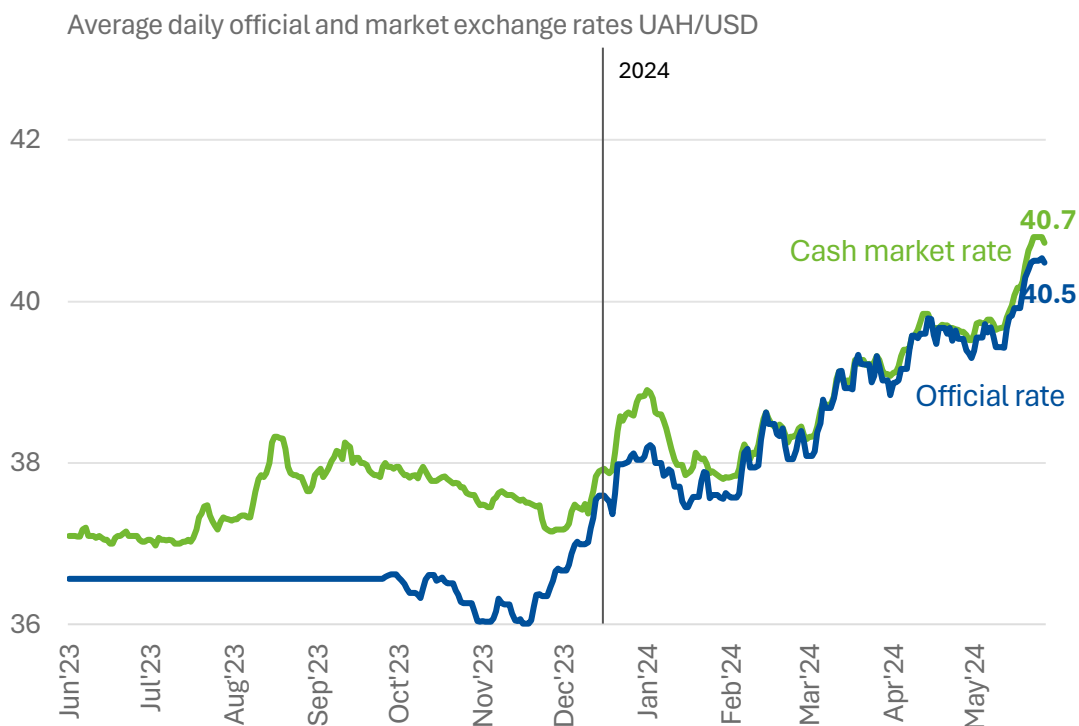
MONETARY AND FX SECTOR

Hryvnia continues to devalue, setting a record – 40.5 \$/UAH

The hryvnia exchange rate against the US dollar was devaluating during May due to increase in the FX demand, **setting a record official rate – 40.5 USD/UAH**. This was also reflected **widening the spread between cash and official rates**, but still within acceptable limits.

Main reasons of hryvnia devaluation in May:

- intensification of budget expenditures,
- decreased FX inflows from agricultural exports
- significant surges in foreign currency demand
- further liberalisation of the FX restrictions



Source: NBU (official rate), index.minfin.com.ua (cash market rate)

Source: NBU

BANKING SECTOR

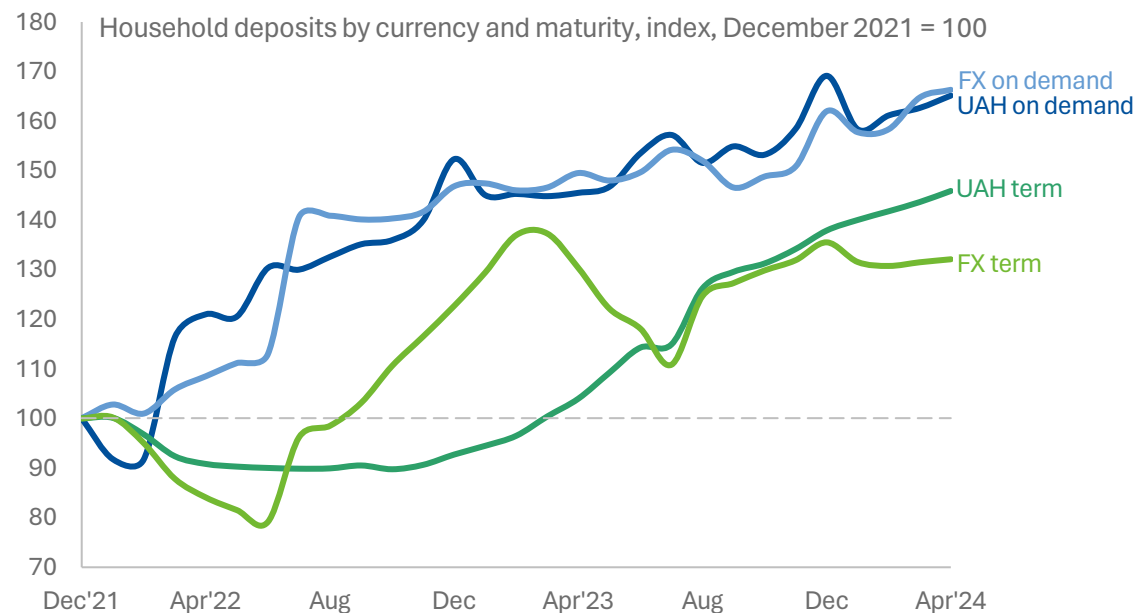
April was marked by deposits growth and continuous recovery in corporate lending

In April, hryvnia and foreign currency deposits continued to **grow**, with most of them **returning to the level seen at the end of 2023**. New deposits with maturities of **three to six months** remained the most popular among retail clients.

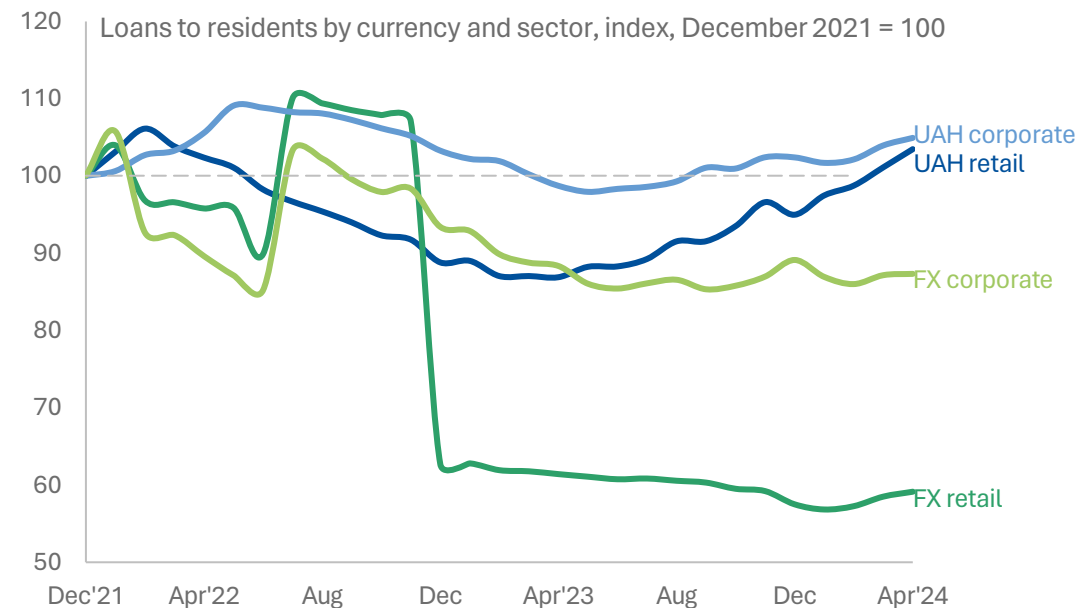
The dollarization rate of client deposits increased by 0.7 pp, to 32.2%, primarily due to the hryvnia depreciation.

Corporate lending continued to recover. SME loans account for 59% of the net hryvnia corporate portfolio.

Lending outside of the Affordable Loans 5-7-9% program continues to grow. Repayment of previously disbursed loans within this state program exceeded the disbursement of new ones.



Source: NBU



Source: NBU

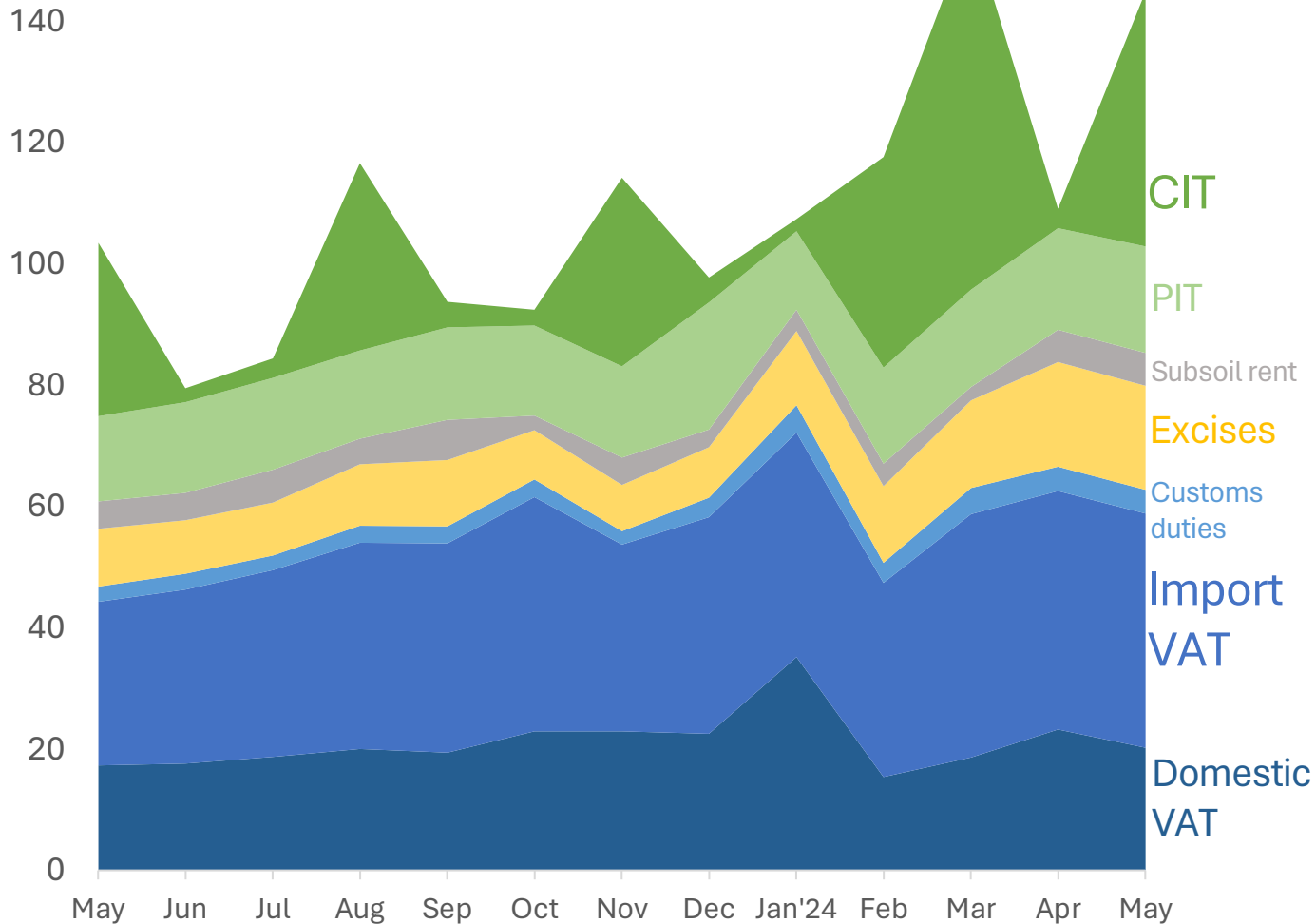


FISCAL SECTOR

FISCAL SECTOR – TAX REVENUES

Strong revenues from bank CIT

State budget tax revenues, UAH bn



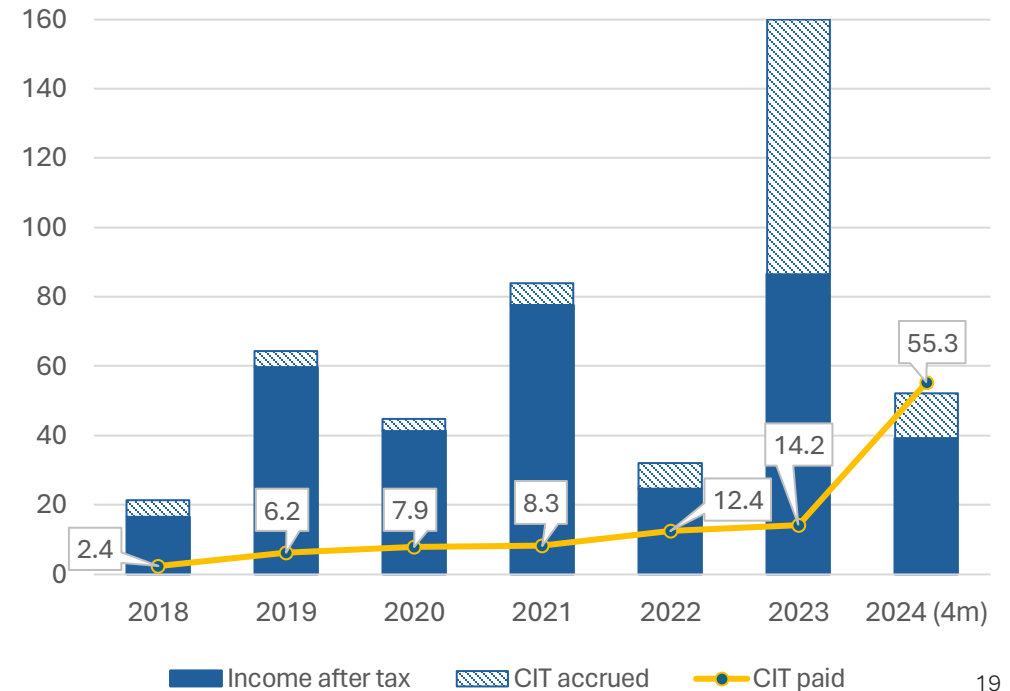
Source: Ministry of Finance

Tax revenues of the state budget in April reached UAH 151.8 bn (+38% YoY, +29% MoM)

CIT brings UAH 42.1 bn (+48% YoY), driven by high bank incomes, taxed at an increased rate.

Banks paid UAH 8.5 bn of CIT in May for the Q1, bringing total CIT paid in 2024 to UAH 63.8 bn.

Bank incomes, CIT accrued and paid, UAH bn



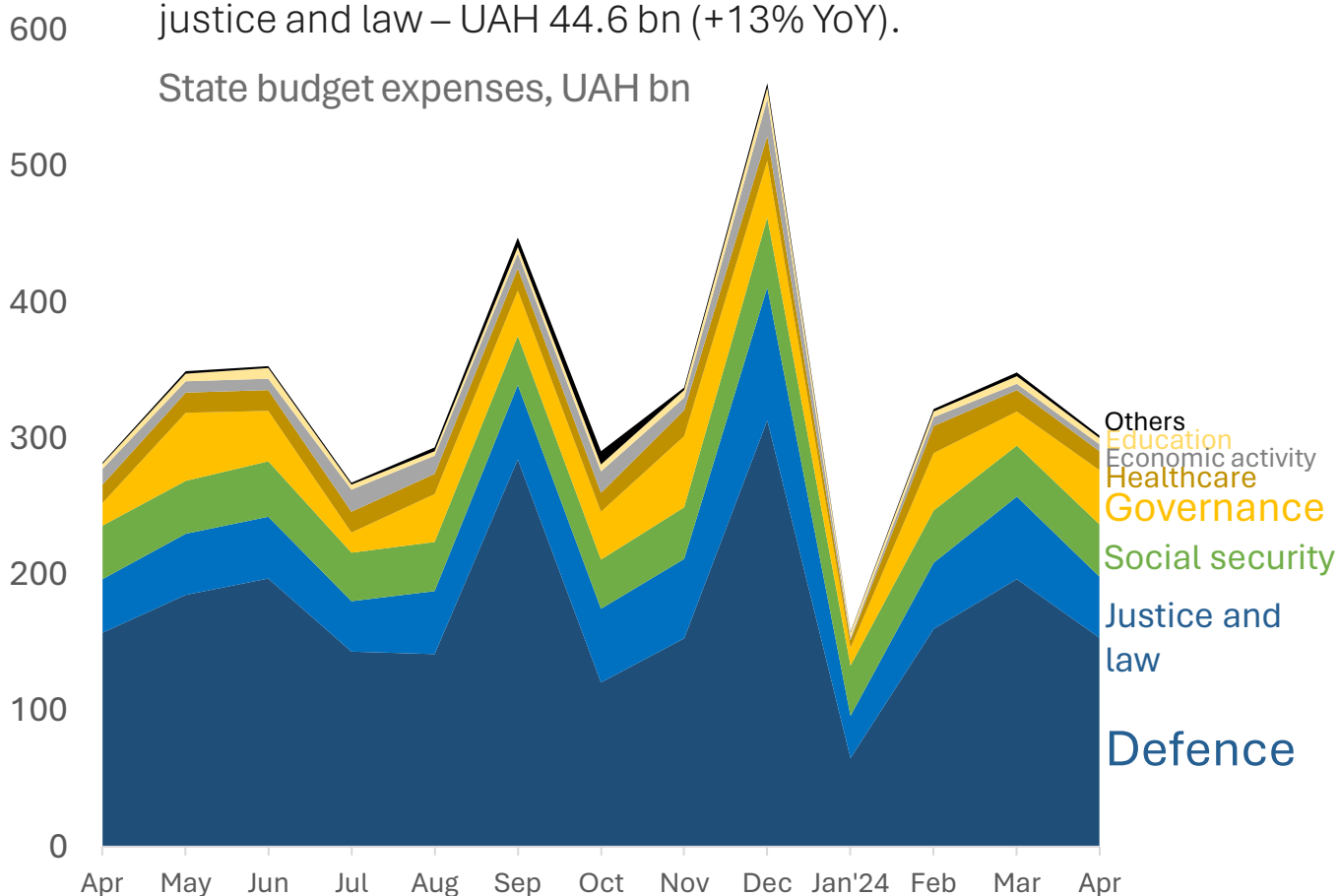
FISCAL SECTOR – EXPENSES AND LOCAL BUDGETS

Moderate state expenses, growing surplus of local budgets

State budget expenses in April decreased by 9.7% to UAH 314.3 bn.

Defence spending down to UAH 153.5 bn (-2.3% YoY), justice and law – UAH 44.6 bn (+13% YoY).

State budget expenses, UAH bn



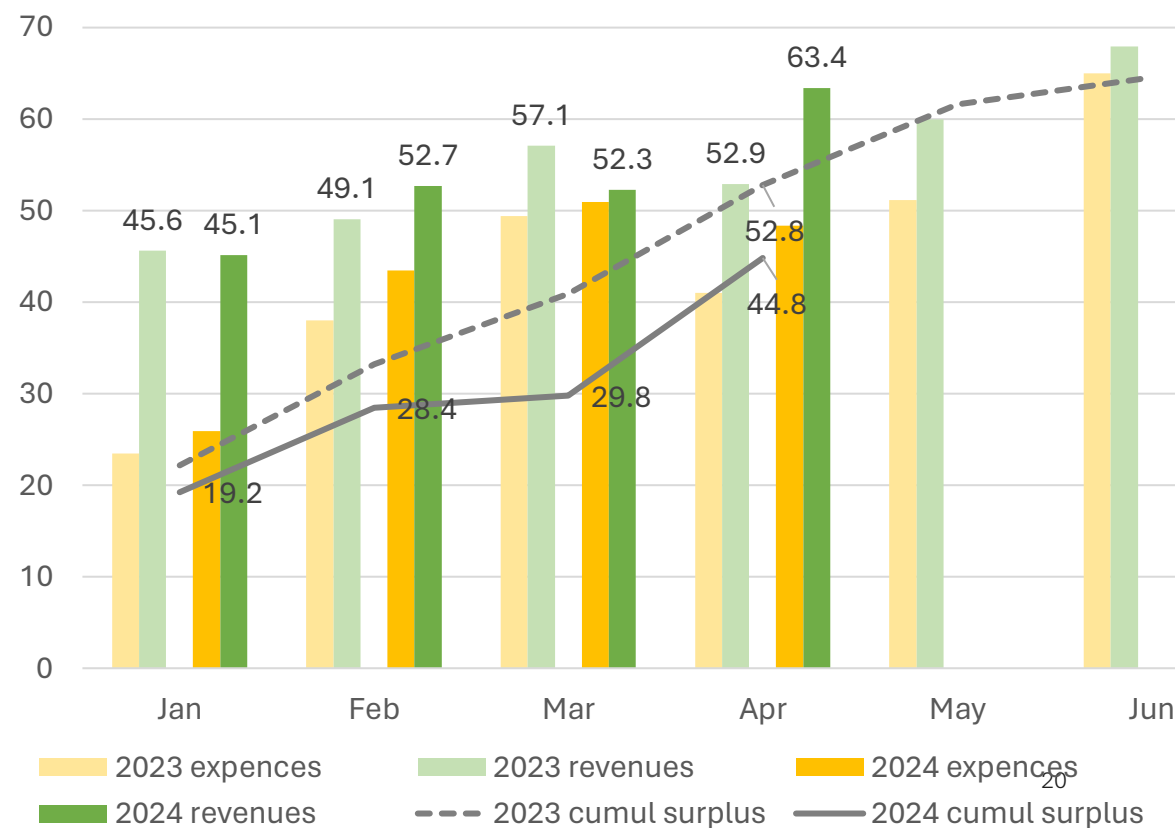
Source: Ministry of Finance

Note: only April figures were released as of the presentation date

Local budgets' cumulative surplus accelerated due to 20% jump in revenues and reached UAH 44.8 bn.

The main revenue driver in April was the transfers from the state budget for recovery purposes (UAH 7.6 bn)

Local budgets, UAH bn

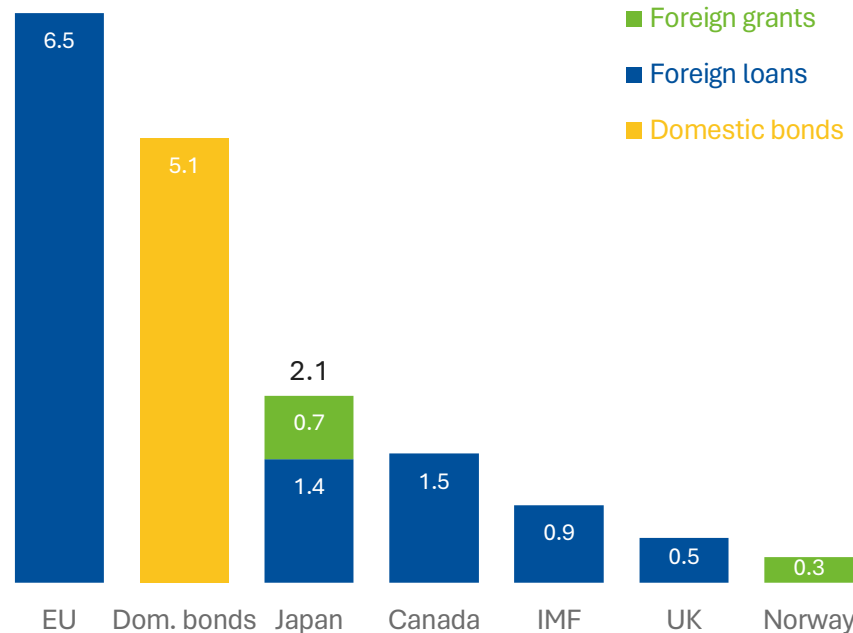


FISCAL SECTOR

Foreign budget aid dropped to \$20 million in May

In May, foreign financial assistance fell to its lowest level since the start of the full-scale invasion: Ukraine received only \$20 million in loans from the World Bank.

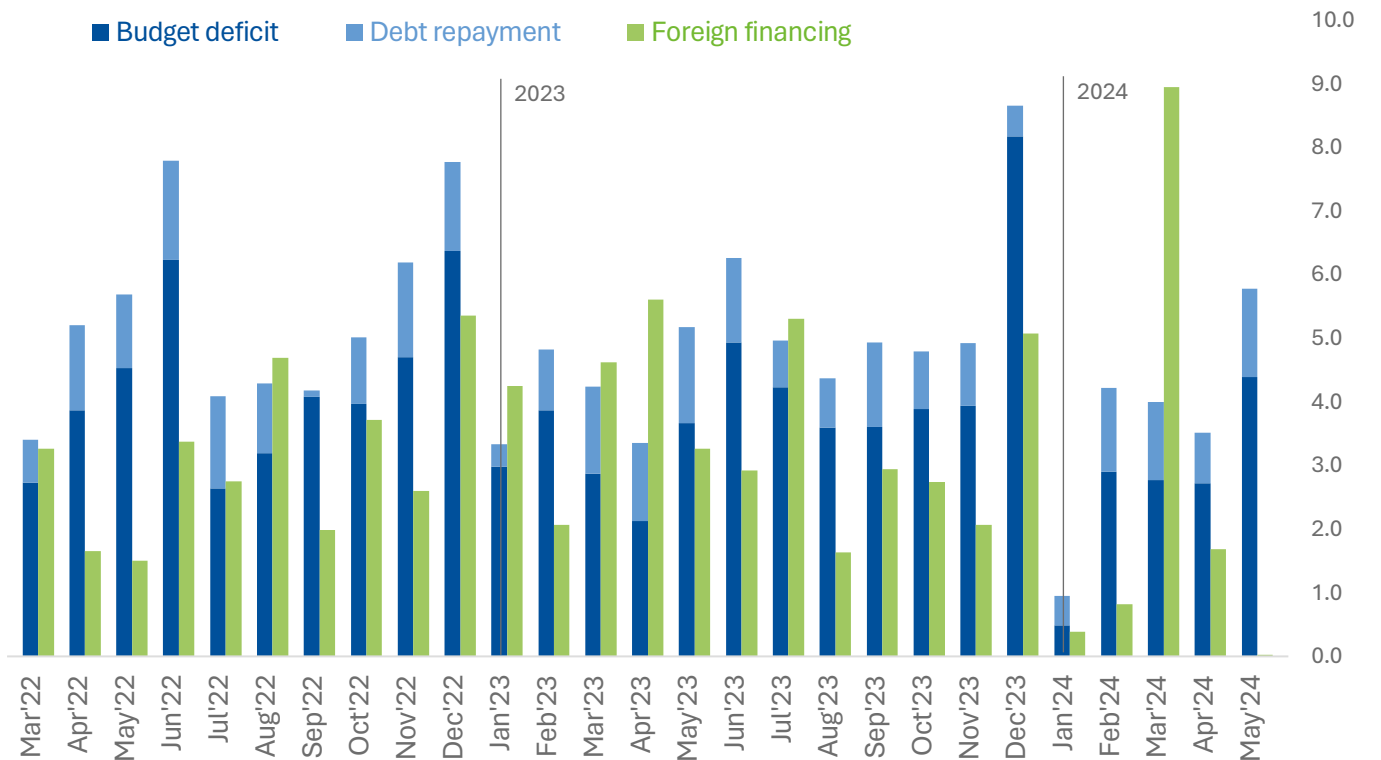
2024 additional financing of Ukraine's state budget as of May 28, \$ bn



World Bank — \$20 m, Spain — \$3 m. Source: Ministry of Finance

In May, foreign aid covered only 0.4% of the state budget financing needs. The situation should improve in June, as Ukraine is to receive €1.9 billion from the EU and \$2.2 billion from the IMF. However, the rhythmicity of the aid has been lost.

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



Source: Ministry of Finance, NBU, CES calculations



THANK YOU.

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