Economy review in September

Special topic: What is hindering the growth of Ukraine’s metallurgy sector?

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Author: CES Team

MACROECONOMIC TRENDS

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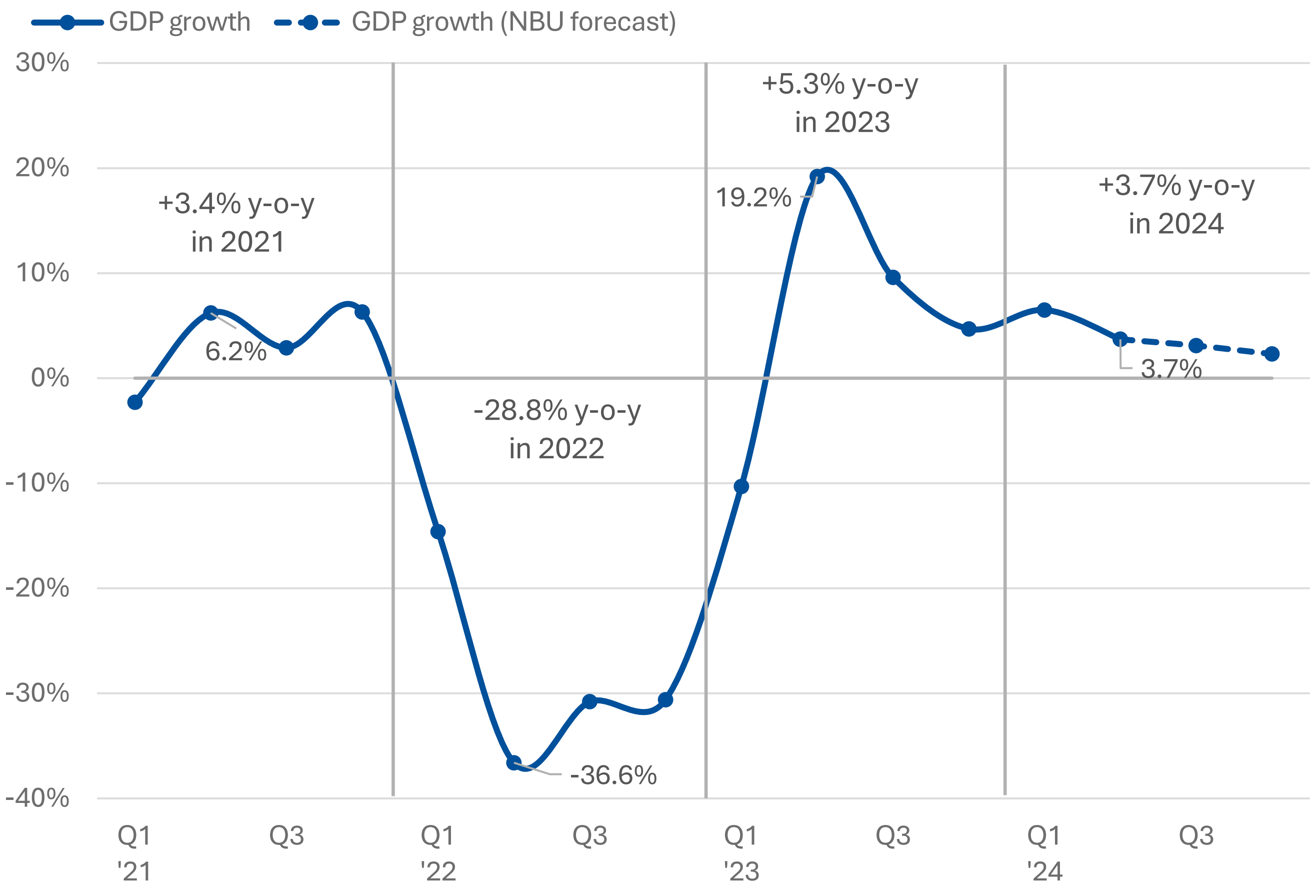
CENTRE FOR ECONOMIC STRATEGY

GDP increased by 3.7% in Q2 2024 in line with NBU forecast

GDP growth (y-o-y) per quarter, %



Source: State Statistics Service of Ukraine, NBU

- Ukraine's real gross domestic product (GDP) grew by 3.7% in Q2 2024 compared to Q2 2023, according to preliminary data by the State Statistics Service.
- In August 2024, the GDP increased by 3.5% y-o-y, according to the Ministry of Economy. In 8M 2024 GDP growth is estimated at 3.9% y-o-y. This is in line with government expectations.
- GDP forecasts for 2024 vary from institution to institution: 3% (IMF), 3.5% (Ministry of economy), 3.7% (NBU), 4.7% (EBRD).

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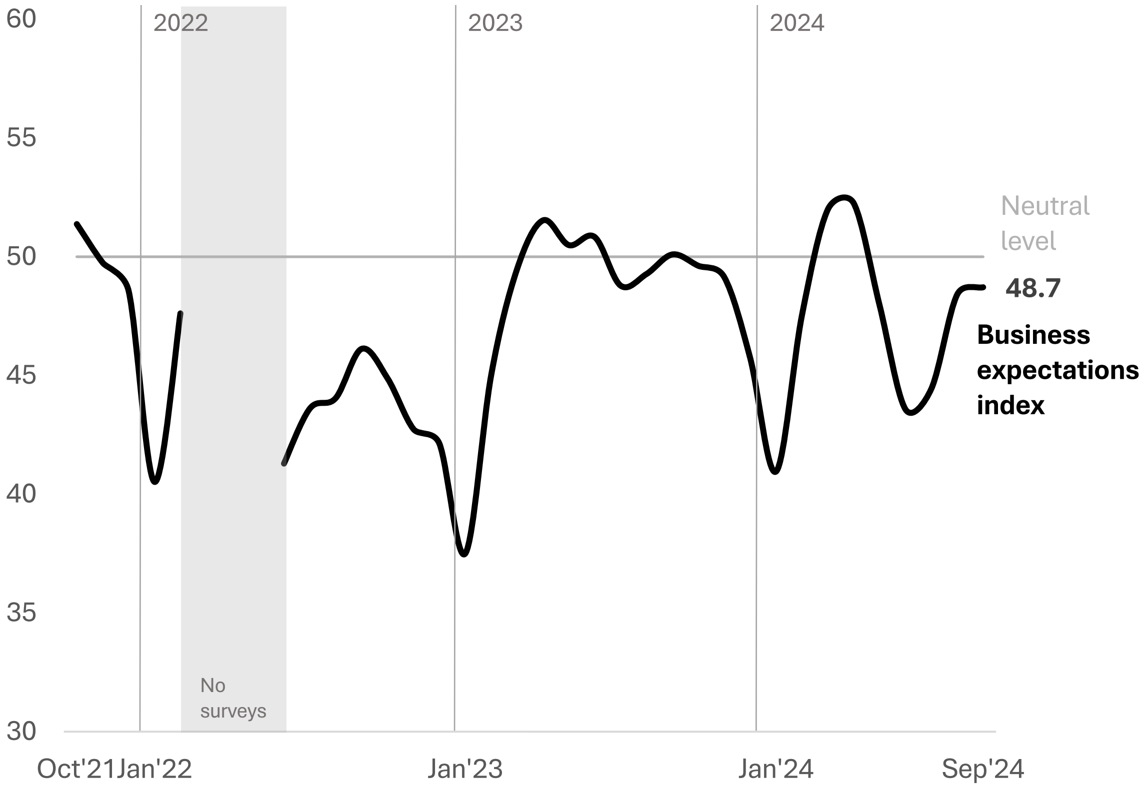
Business expectations generally softened in September

- **In September, the NBU's business activity expectations index softened to 48.7** compared to 48.4 in August but remained below the neutral level of 50 points.

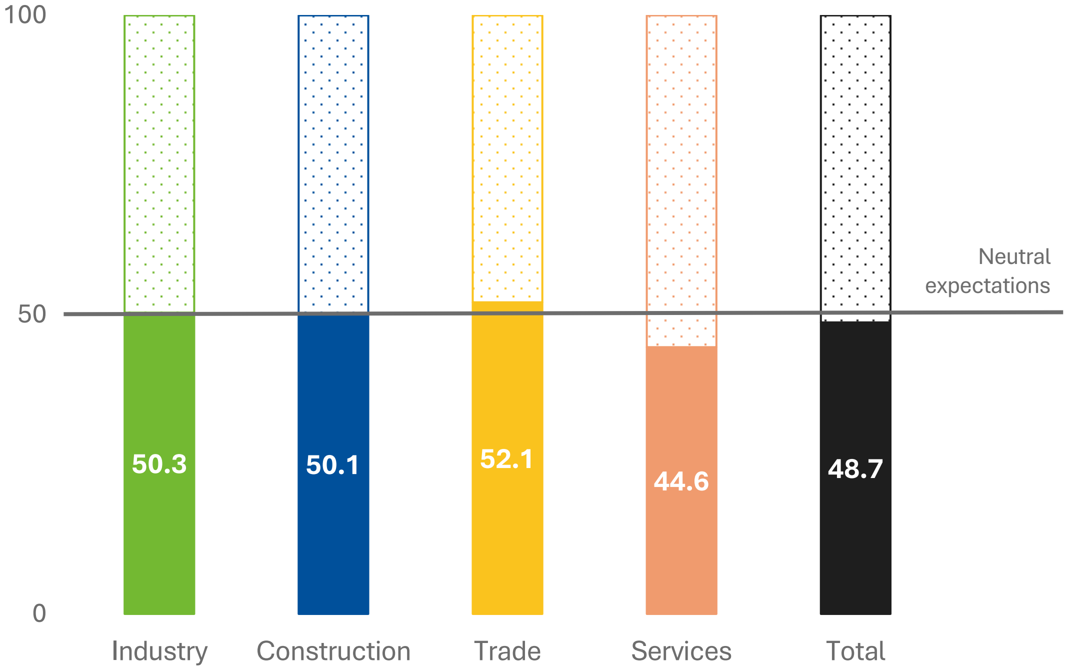
NBU business activity expectations index dynamics



Source: NBU

- **Sentiment improved in trade and industry but deteriorated in construction and services.** However, the expectations of construction workers remain positive while service companies complain about a shortage of workers and the need to prepare for a difficult winter with power outages.

NBU business activity expectations index by sector in September



MONETARY, FX AND BANKING SECTORS

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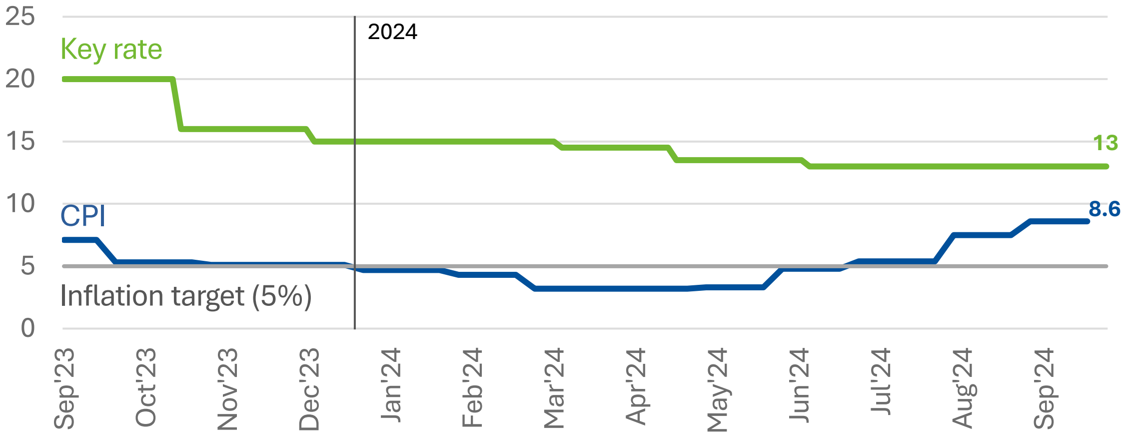
Inflation accelerated to 8.6%, and key rate policy remained the same – 13%

Key rates as of September 30, 2024 (CPI y-o-y in September 2024)

Indicator	Value, %	Change in September
Government bonds rate (12-m)	14.65	0.00 p.p.
Key rate	13.00	0.00 p.p.
12-m deposit rate	12.54	-0.27 p.p.
3-m deposit rate	12.78	-0.20 p.p.
Inflation (CPI)	8.60	1.10 p.p.

Sources: NBU, State Statistics Service, UIRD

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



Source: NBU, State Statistics Service

- In September, NBU decided to keep the **key policy rate at 13%** to gradually bring inflation back to the target of 5% in the coming years and support the sustainability of the FX market.
- The NBU cut rates on **three-month DCs to 15.5% and refinancing loans to 16%** and kept the overnight rate unchanged. Since 11 October 2024, reserve requirements have increased by five percentage points, with **60% of reserves allowed in bonds**.
- **Nominal hryvnia interest rates have declined due to earlier monetary easing** but yields on deposits and government securities still protect savings from inflation.
- In September 2024, **inflation accelerated to 8.6% y-o-y** — +1.5% m-o-m — due to rising processed food prices, increased production expenses, and ongoing pressure from the earlier hryvnia depreciation.

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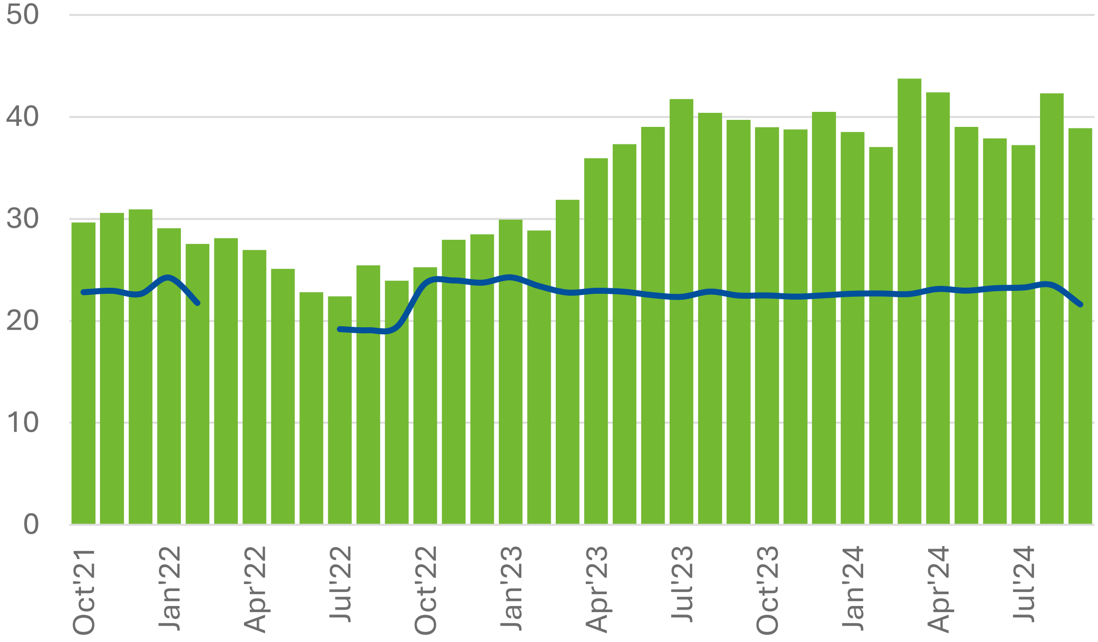
International reserves declined and hryvnia stayed relatively stable

In September, **international reserves fell by 8.1% to $38.9 bn** (5.0 months of import coverage) due to NBU's FX interventions to address the structural deficit and stabilise exchange rate fluctuations. FX inflows were insufficient to prevent the reserves from declining.

Net FX demand rose due to seasonal factors. To stabilise the FX market, the NBU increased net FX sales to $3.2 bn and introduced measures to prevent unproductive capital outflows. **This kept the hryvnia relatively stable, and the cash-official rate spread below 1.0%.**

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

Average daily official and market exchange rates UAH/USD

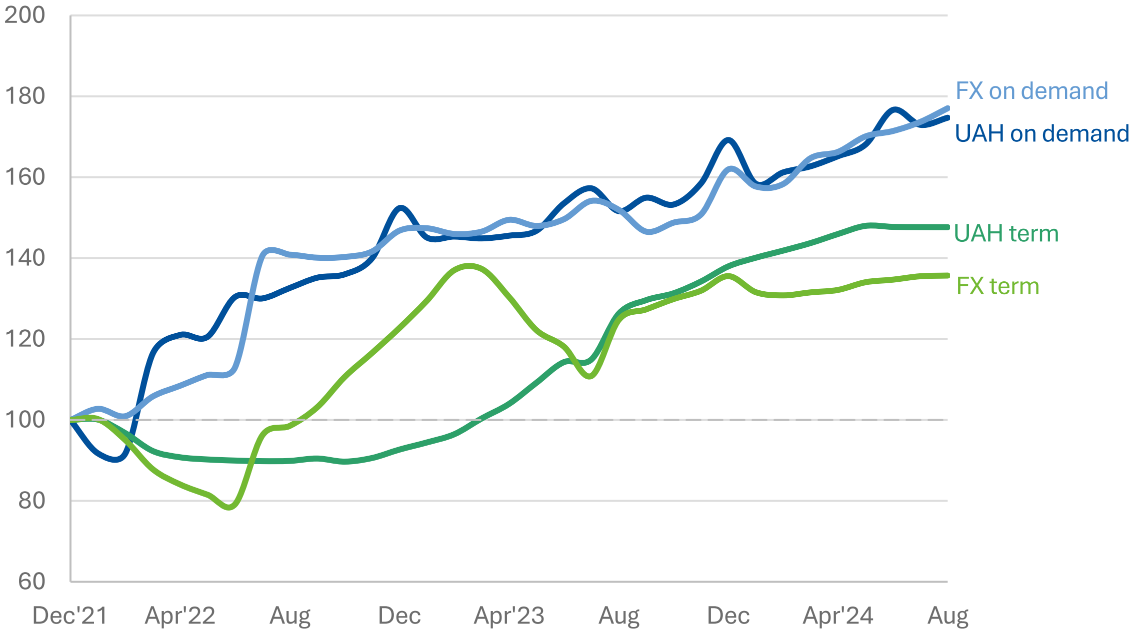
Source: NBU (official rate), index.minfin.com.ua (cash market rate)

Household deposits and all loans in hryvnia resumed growth

On-demand deposits in hryvnia and in foreign currency continued to grow, while term deposits in both currencies remained stable.

Growth in household hryvnia term deposits stalled likely because of **deteriorating exchange rate expectations and rising energy expenditures**.

Household deposits by currency and maturity, index, December 2021 = 100

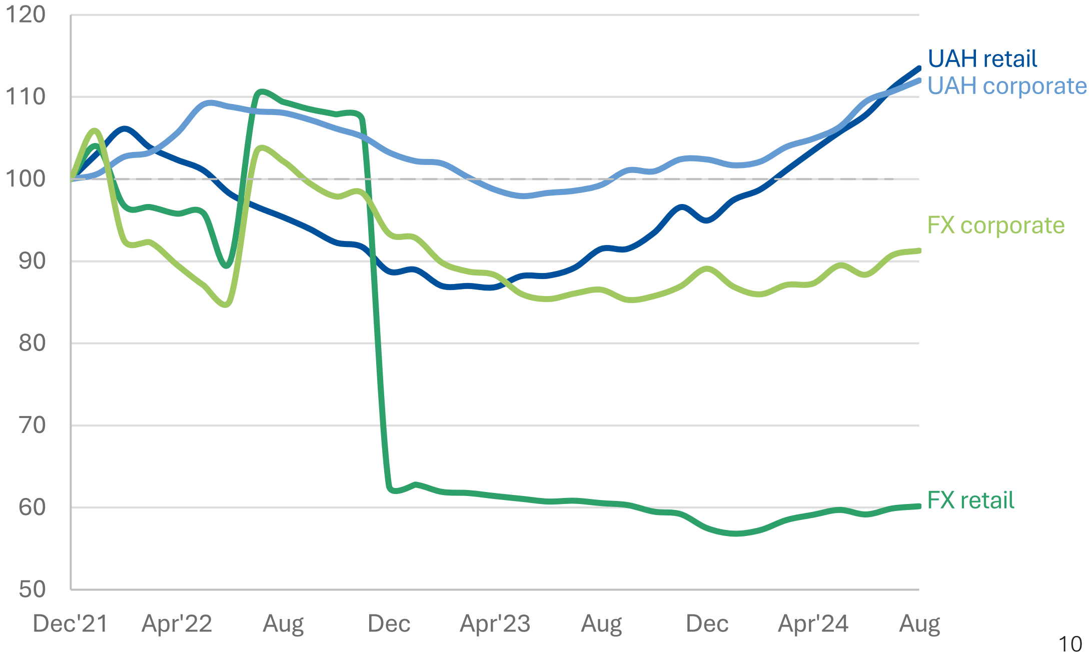


Source: NBU

In August, **corporate and retail lending in UAH continued to expand**, while lending in foreign currencies also modestly grew.

The value of loan agreements under the Affordable Loans 5-7-9% programme rose by UAH 6.6 bn, with 1,900 new agreements, but arrears also increased by UAH 695 m.

Loans to residents by currency and sector, index, December 2021 = 100

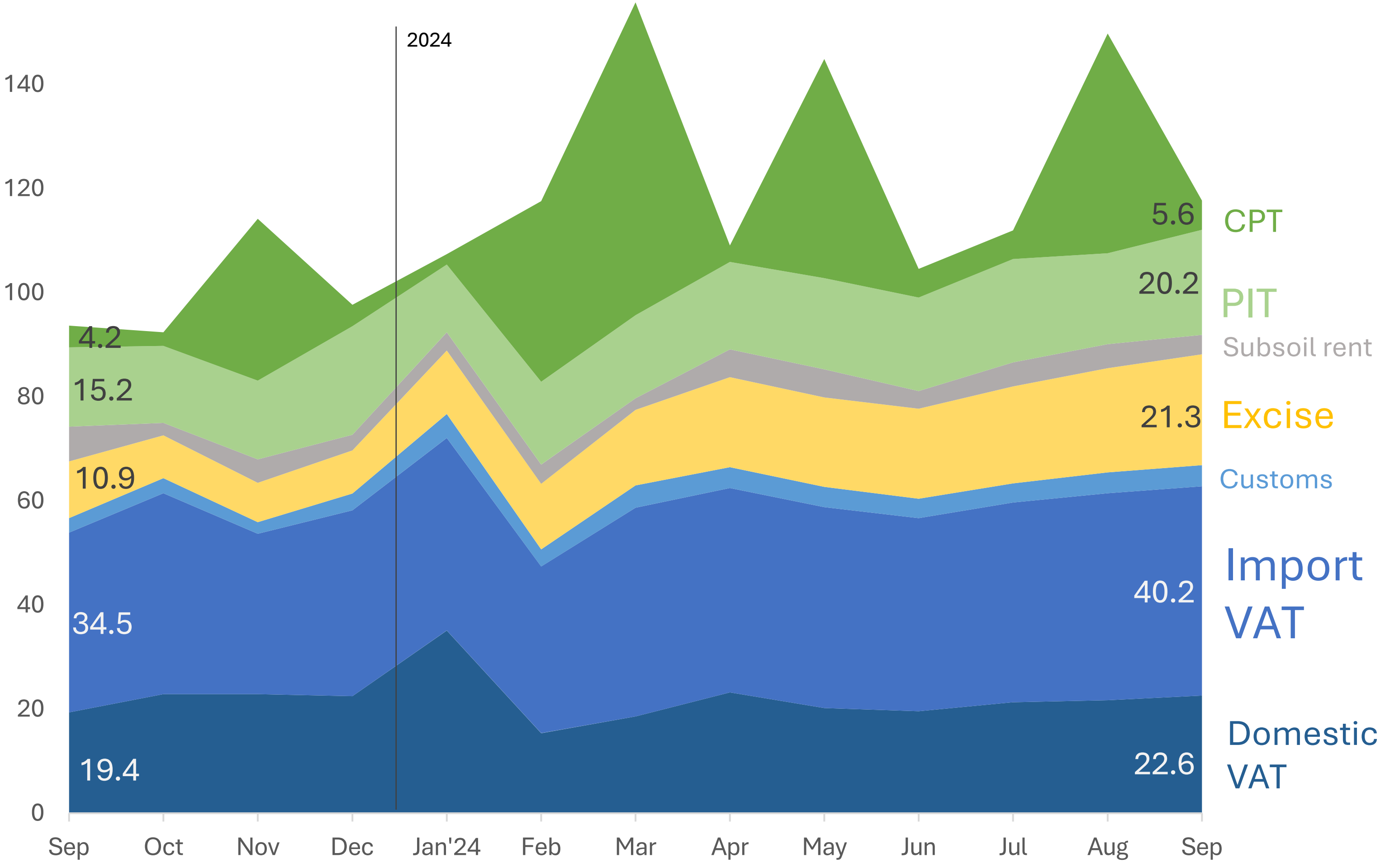


Source: NBU

FISCAL SECTOR

Tax revenues growth trend continued in September

State budget tax revenues, UAH bn



Tax revenues of the state budget in September were UAH 117.9 bn, adding 26% y-o-y.

The growth continues to be driven by consumption taxes, as well as the corporate profits tax (CPT) due to increased taxation of banks.

Excise revenues increased 95% y-o-y. VAT increased by 16.5%.

The parliament approved suboptimal tax increase package. It increased the military levy and introduced a set of smaller sources of additional revenues. It will likely be signed by the president in the coming days.

Source: Ministry of Finance. *Note: based on the preliminary budget performance data, released by the MoF*

FISCAL SECTOR

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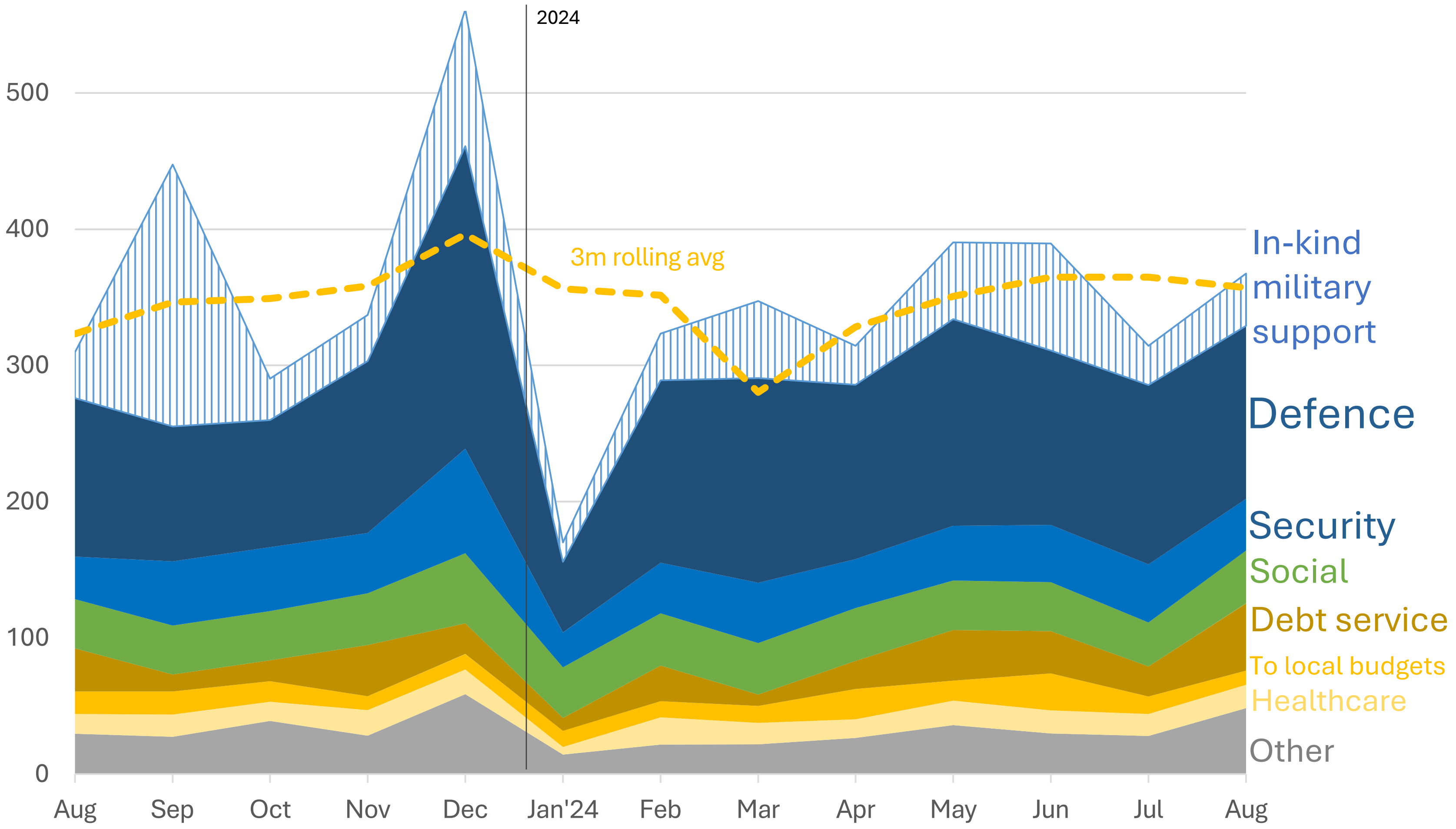
Defence spending is limited by own revenues, military support decreased

State budget expenses, UAH bn



State budget expenses not including in-kind military support reached **UAH 2,281 bn for 8m 2024**, adding 12.6% y-o-y.

Defence and security expenses reached **UAH 1,308 bn** for 8m 2024, adding **15.3% y-o-y** and decreased in August to UAH 165 bn (-9 bn to July), despite strong revenues.

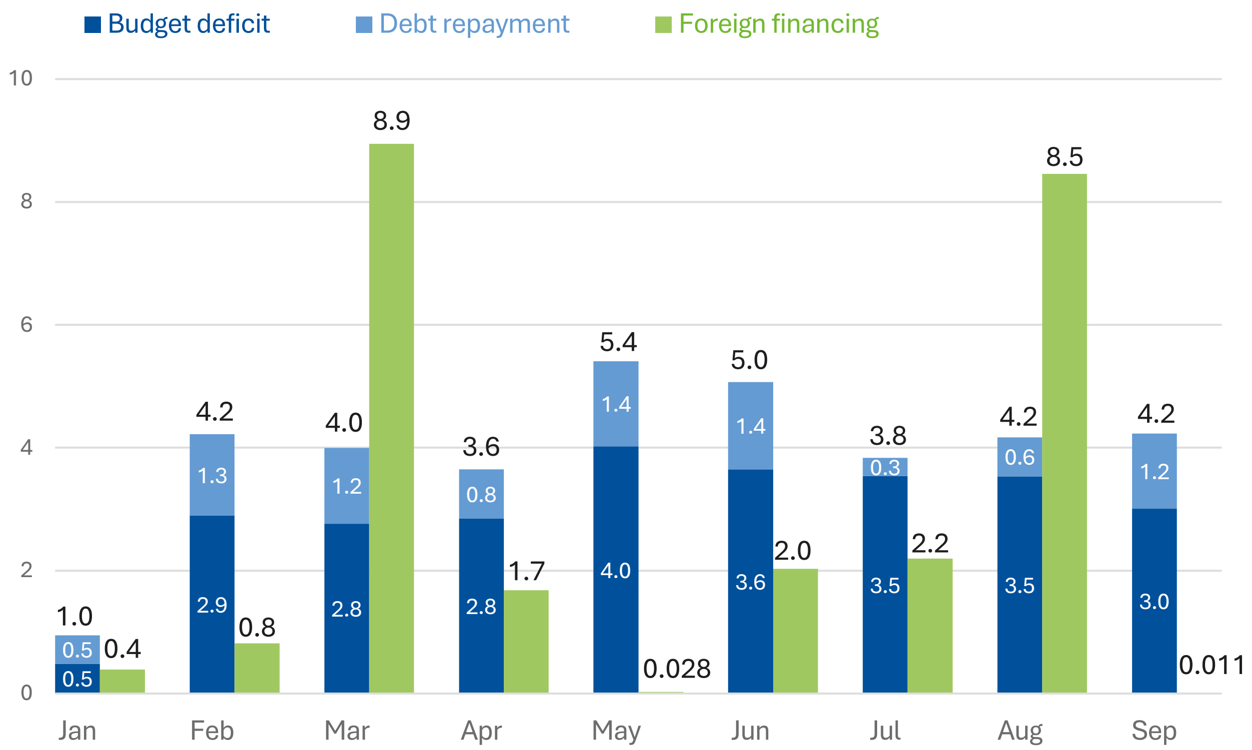
Debt service expenses hit record high **UAH 49 bn** in August.

Source: Ministry of Finance. *Note: only August figures were released as of the presentation date*

Ukraine received only $0.011 bn of foreign assistance in September

In September, foreign funding expectedly dropped to almost zero for the second time since the start of the full-scale invasion. Ukraine received only $11 million in loans from the Council of Europe Development Bank. Ukraine has not yet received $3.9 bn grant from the United States, which was supposed to be disbursed by the end of September.

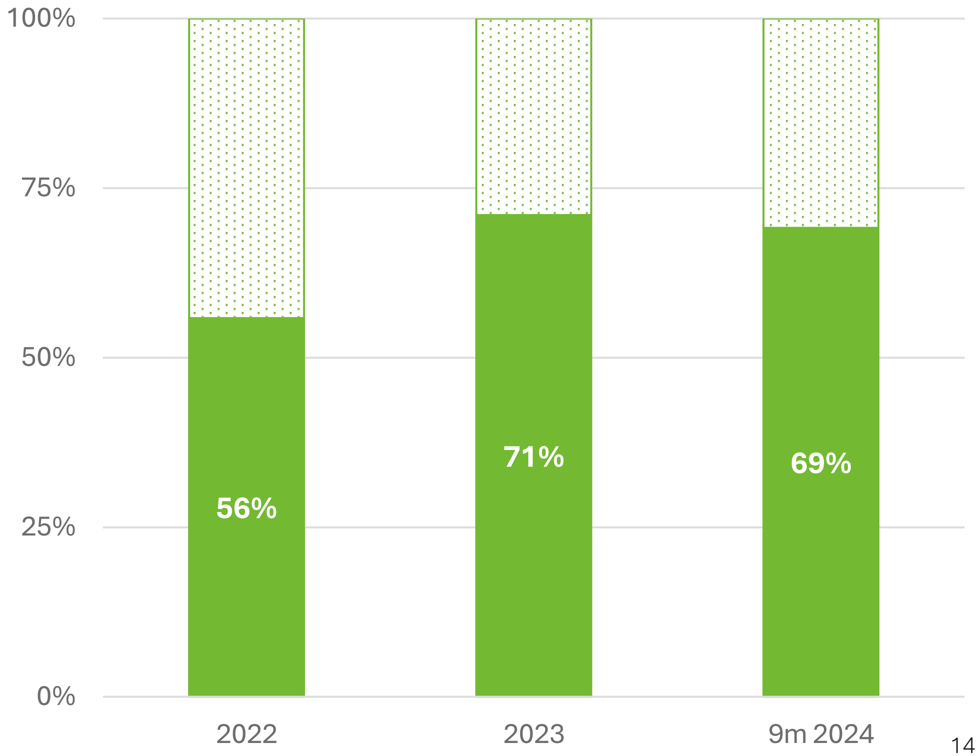
Foreign financing, state budget deficit and debt repayment in 2024, $bn



Sources: Ministry of Finance, NBU, CES calculations

Foreign aid covered 69% of the additional needs of the state budget in 9 months of 2024. The coverage decreased along with a decrease in foreign disbursements in September. We expect this share to further decrease by the end of the year.

State budget financial needs coverage by foreign financing, %



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SECTORAL ANALYSIS

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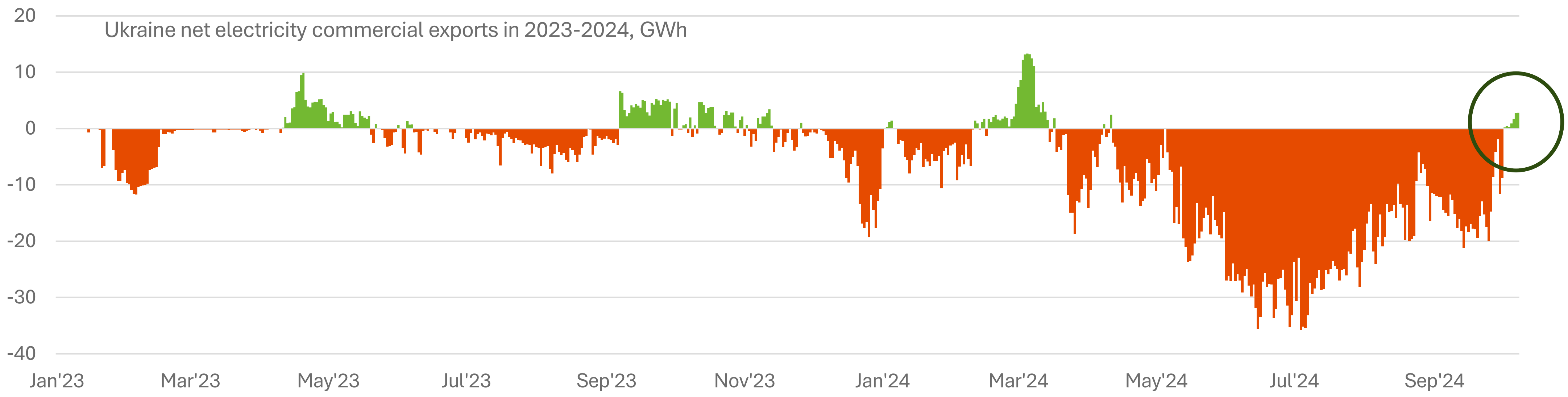
Ukraine restores energy balance and prepares for the heating season

- Electricity imports in September amounted to 437 GWh (-5% m-o-m).
- On September 28, Ukraine started exporting small amounts of electricity. Exports in September amounted to 0.8 GWh.
- On October 2, electricity exports exceeded imports and for the first time since April Ukraine became a net exporter of electricity.
- Ukraine goes through the middle of the fall without scheduled power outages. The last rolling blackout in Kyiv took place on September 12.
- Minister of energy German Galushchenko predicts that Ukraine can avoid scheduled power outages in the winter. Experts are not so optimistic: they predict blackouts ranging from 4 hours a day in the optimistic scenario to 12-18 hours a day if Russia continues attacks on the energy infrastructure and if winter is frosty.



Source: ENTSO-E

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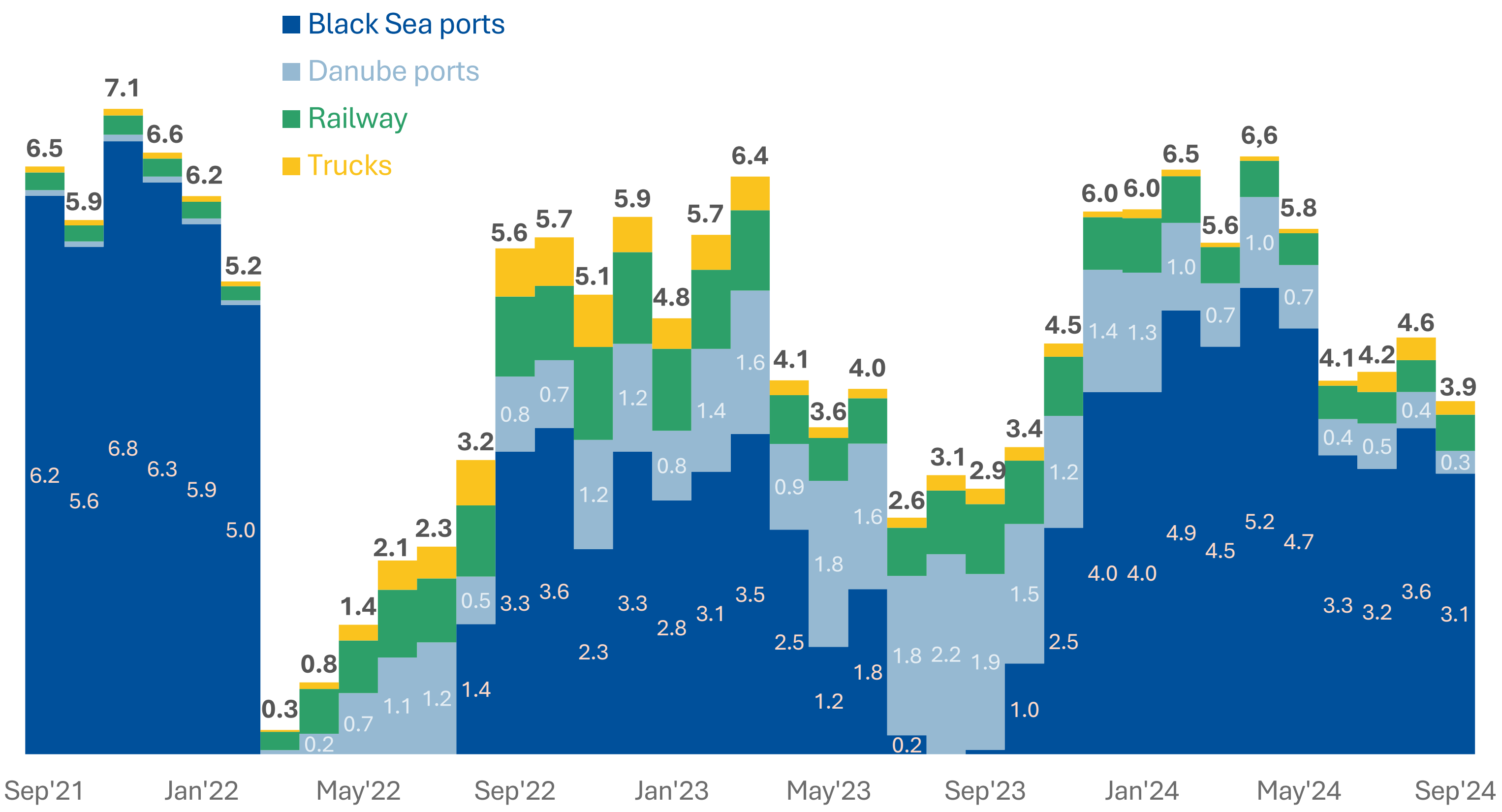
Agricultural exports faced seasonal decline in September

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.

- **In September, grain and oilseeds exports decreased by 15% m-o-m to 3.9 mt**. This decline is of seasonal nature. Exports traditionally recover in Q4.
- In 8M2024 the main agricultural export goods were corn ($3.6 bn), sunflower oil ($3.4 bn), wheat ($2.5 bn), and rapeseed ($1.0 bn).
- **9M2024 data show increasing exports of wheat** (+42% to 9M2023) **and juices** (+65%) in physical volumes. In September, sugar production and export season also started.
- **The share of Black Sea ports in exports this August reached 79%,** with another 6% exported through Danube ports. Railway export share exceeded 10% for the first time this year.

SECTORAL ANALYSIS

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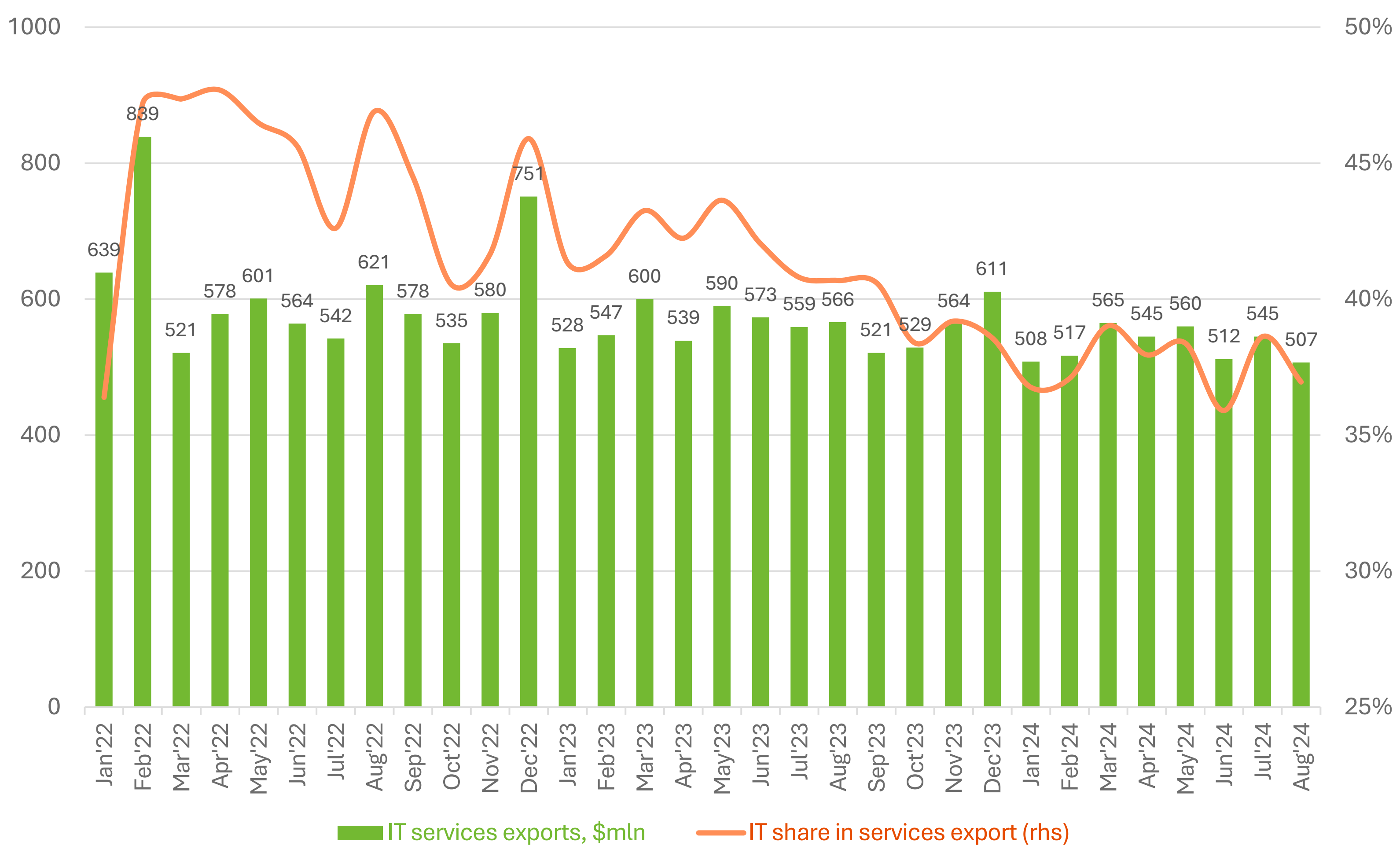
IT exports hit wartime low in August



Sources: NBU, CES calculations

- **Exports of IT services in August decreased by 7%** m-o-m to $507 m. This is the lowest monthly volume since May 2021.
- **IT exports in 8M2024 reached $4.26 bn** — down 5% y-o-y.
- In the academic year 2024/2025, **the number of university applications for admission to IT specialties decreased by 25%**, and the number of first-year students in IT fell by 30%. At the same time, the total number of applications decreased by 24%. This year, the largest number of students applied for Computer Science (6711 applicants), Software Engineering (5003), and Cybersecurity (3358).

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SPECIAL TOPIC
IRON & STEEL

IRON & STEEL SECTOR OVERVIEW

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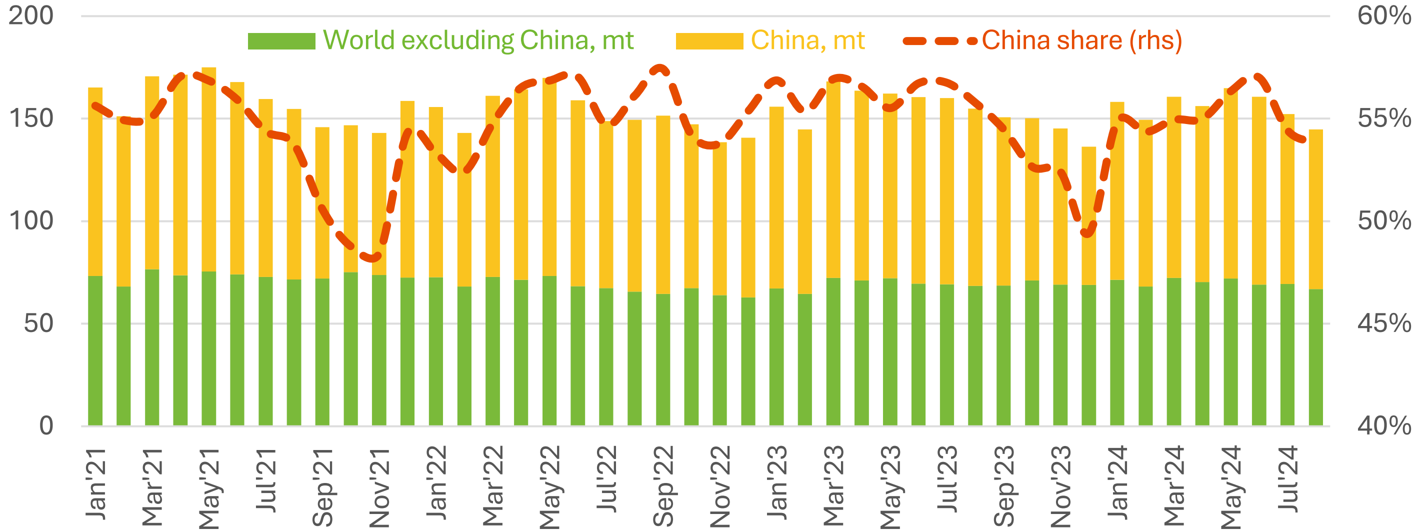
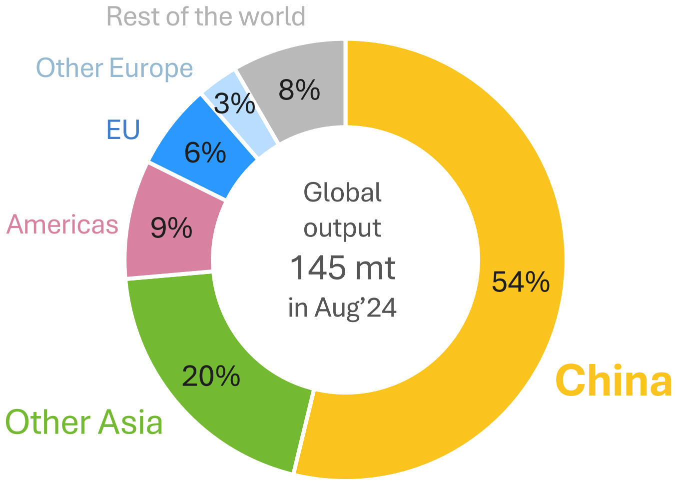
China produces 1 bn t of steel per year, reaching 54% of the global output

Global steel output in 2021-2024, millions mt



Share of regions in global steel output, %



Source for both charts: World Steel Association.

- **Global steel production reached 1.89 bn t in 2023, including 1.02 bn t in China**. Other largest producers include India (141 mt), Japan (87 mt), United States (81 mt) and Russia (76 mt). Ukraine was ranked 24th with 6.2 mt.
- **In 8M2024 global steel output fell by 1.5% to 1.25 bn t**. India and Turkey keep increasing production while China and Russia lose their market shares.
- **Steel rebar reached a three-month high at $484/t** before markets closed for the Chinese Golden Week on 30 September. Investors assessed the impact that stimulus from the Chinese government will have on ferrous metal demand.
- **Iron ore prices rebounded** from September lows. The current price of ore is fluctuating around **$110/t**.
- On 24 September, the **Chinese government announced a package of economic incentives** aimed at making mortgages cheaper and simplifying purchase of secondary housing. This contributed to a 7% daily rise in ore and steel prices.
- According to the Global Forum on Steel Excess Capacity, **global overcapacity will reach 630 mt** by 2026, threatening the economies of open market regions, including the EU.

IRON & STEEL SECTOR OVERVIEW

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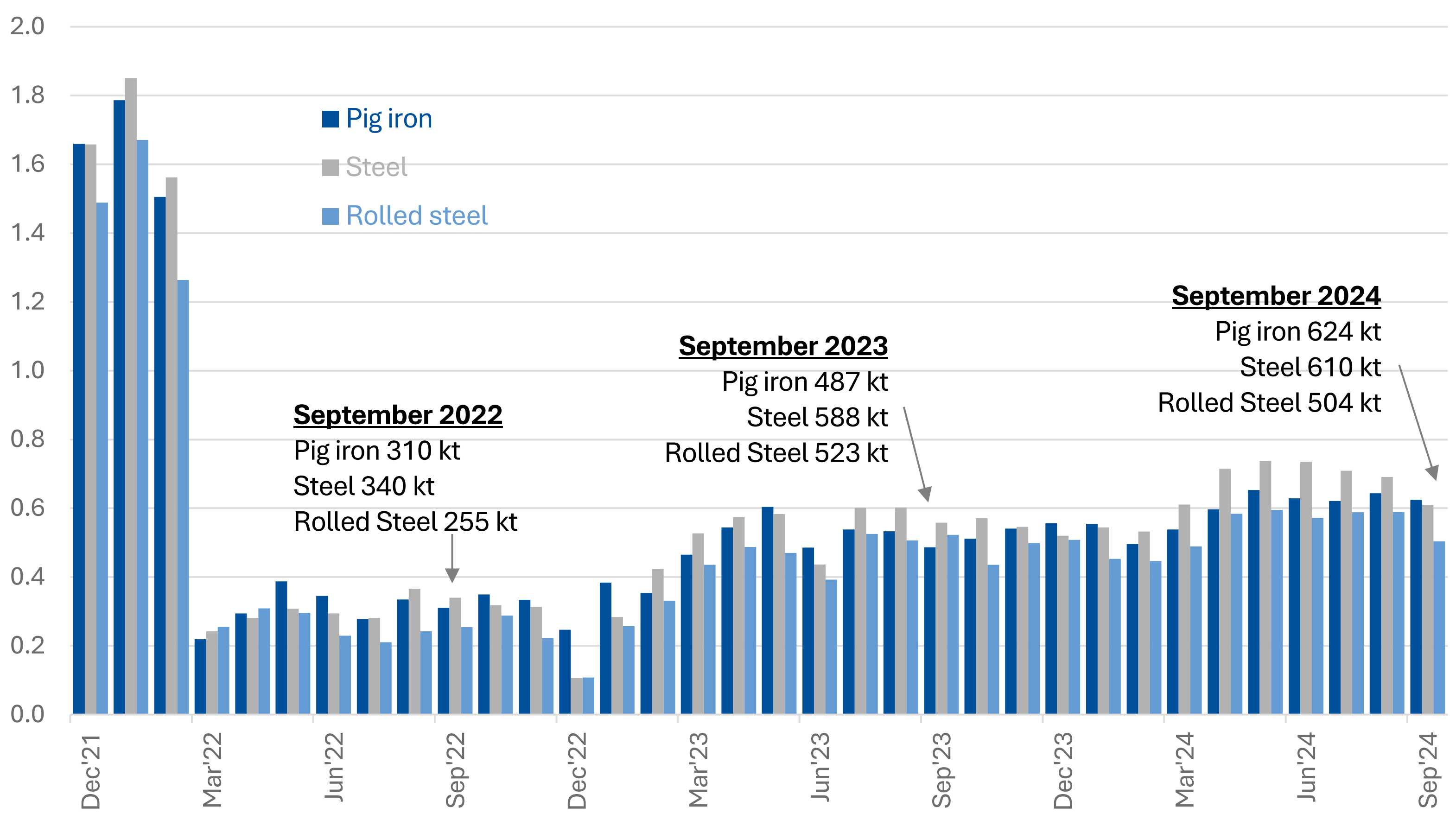
Steel production in Ukraine shrank 12% in September and reached 7m minimum

Ukraine ferrous production by main categories, mt



- **In September, Ukraine cut production of all major types of ferrous products.** Production of pig iron dropped by 3% m-o-m to 624 kt, steel by 12% to 610 kt, and rolled steel by 14.5% to 504 kt.
- **In 9M2024**, Ukraine produced 5.4 mt of pig iron, 5.9 mt of steel and 4.8 mt of rolled steel. This is **22-28% more** than in the same period of 2023.
- In August, **Ukraine increased scrap metal exports to 28 kt**, a war-time high. Most of the scrap is sent to Poland, with some of it in transit to Turkey.
- **Turkey, in turn, is increasing its rolled steel supplies** to Ukraine, importing 408 kt in 8M2024. If this pace continues, in October, imports of Turkish rolled steel may exceed the record of 2023.

Source: Ukrmetalurgprom

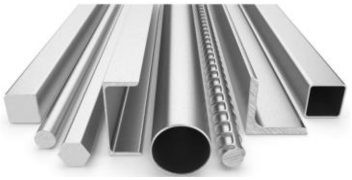
IRON & STEEL SECTOR OVERVIEW

Iron ore and rolled steel remain key export products

In 8M2024 Ukraine exports in iron & steel sector exceeded $4.7 bn which is over 17% of total Ukraine's export







	Iron ore	Pellets	Pig iron	Steel	Rolled steel	Pipes	Ferroalloys
Output 2023, mt	36	9,1	6,0	6,2	5,8	0,5	0,25
Output 9m2024, mt	~40*	9,4*	5,4	5,9	4,8	0,4*	0,05*
Export 2023, $m	1 767		471	640	1 176	587	298
Export 8m2024, $m	2 033		286	649	987	446	64

Sources: CES estimations based on State Customs Service, USGS, GMK Center.
* - CES estimates.

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GET German Economic Team

THANK YOU.

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