CENTRE FOR ECONOMIC STRATEGY

German Economic Team

Date: 14.11.2024

Author: CES Team

Economy review in October

Special topic: How close are we to the EU? Overview of economic reforms over the past year

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY: UKRAINIAN ECONOMY IN OCTOBER 2024

CENTRE FOR ECONOMIC STRATEGY

- **Macroeconomic trends:** Ukraine's GDP is forecasted to increase by 4.0% in 2024 according to the latest NBU forecast published in the Inflation Report — up from 3.7% in the previous forecast. Business expectations improved in October. Sentiment improved in the services sector but deteriorated in all other surveyed sectors.

- **Fiscal sector:** Tax revenues growth trend continued in October. State defence spending stayed level and foreign military support increased. Ukraine has received more than $100 bn of foreign financing since 24 February 2022.

- **Monetary, FX, and Banking sector:** Inflation accelerated to 9.7%, and key rate policy remained the same – 13%. International reserves declined, but hryvnia stayed relatively stable. Household deposits on demand and hryvnia loans continued to demonstrate growth.

- **Sectoral analysis:** Ukraine starts the heating season by reducing electricity imports. High season for Ukrainian agri exports started in October, and grain and oilseeds exports expectedly increased by 32%. Steel production on 8-month low but still higher than in 2023. IT exports slightly rebounded after a wartime low and stayed over $500m per month.

- **Special topic:** European integration of Ukraine. According to Ukraine Enlargement report, Ukraine made limited progress in 2024. Ukraine has implemented numerous economic reforms, which have a profound effect on economic resilience. Ukraine's accession negotiations have begun with the Fundamentals and will conclude with the Fundamentals.

See our report below for further details.

CENTRE FOR ECONOMIC STRATEGY

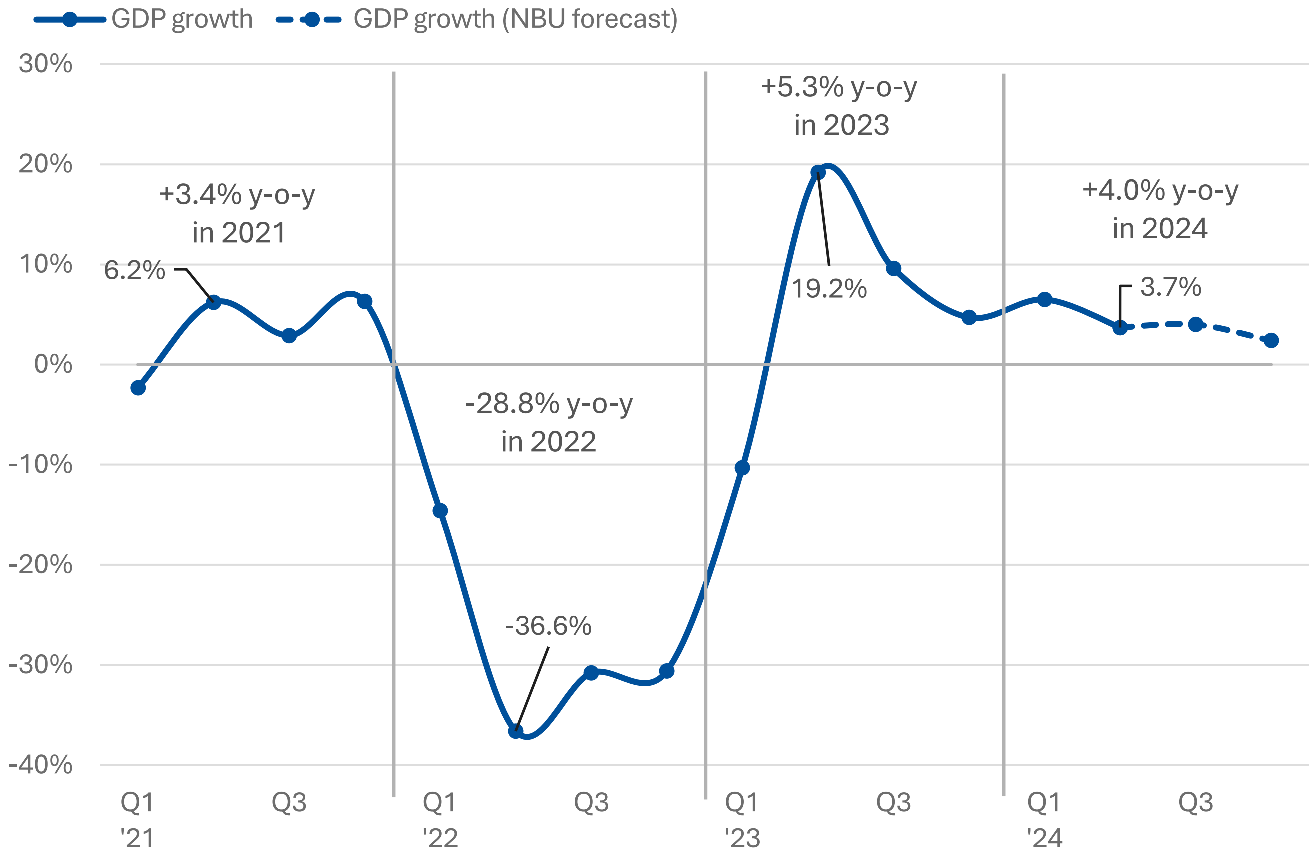
MACROECONOMIC TRENDS

MACROECONOMIC TRENDS

CENTRE FOR ECONOMIC STRATEGY

GDP is now forecasted to increase by 4.0% in 2024 — NBU

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



- Ukraine's real gross domestic product **(GDP) is forecasted to increase by 4.0% in 2024**, according to the latest forecast by the National Bank, which was published in the Inflation Report on 7 November.

- Lower-than-expected electricity shortages and slightly higher harvests of early grain crops allowed the NBU to raise its forecast for real GDP growth in 2024 from 3.7% in the previous forecast.

- IER estimates that real GDP increased 2.1% y-o-y in Q3 2024. This is significantly lower than forecasted by the NBU, which expected a 4.0% GDP increase in Q3 2024.

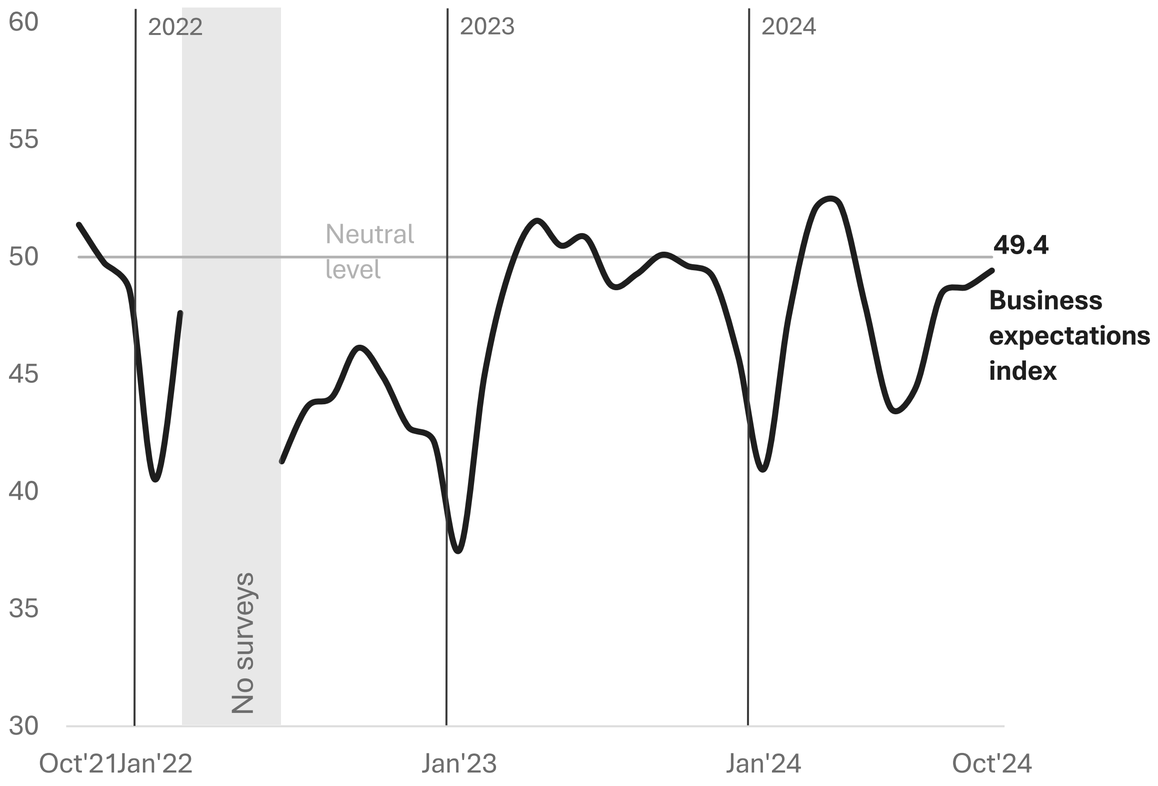
Source: State Statistics Service of Ukraine, NBU

CENTRE FOR ECONOMIC STRATEGY

Business expectations improved in October

- **In October, the NBU's business activity expectations index improved to 49.4,** up from 48.7 in September, but remained below the neutral level of 50 points.

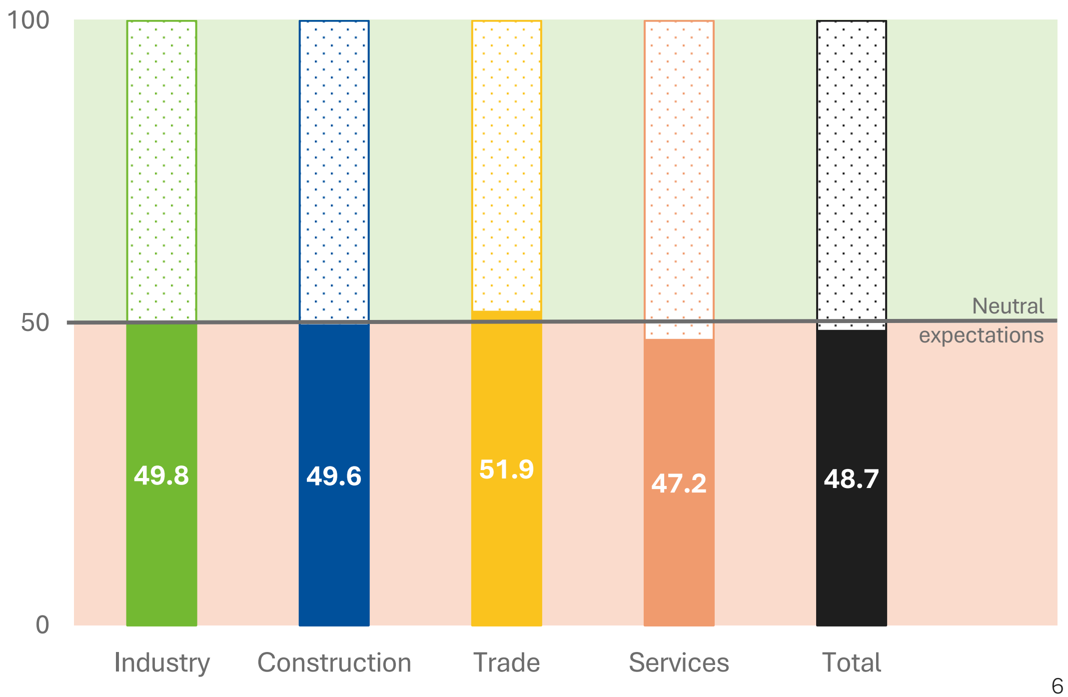
NBU business activity expectations index dynamics



Source: NBU

- Sentiment improved in the services sector but deteriorated in all other surveyed sectors. Restraining factors were the increased shelling of ports and the risk of further attacks on energy infrastructure, as well as labour shortages and rising business costs.

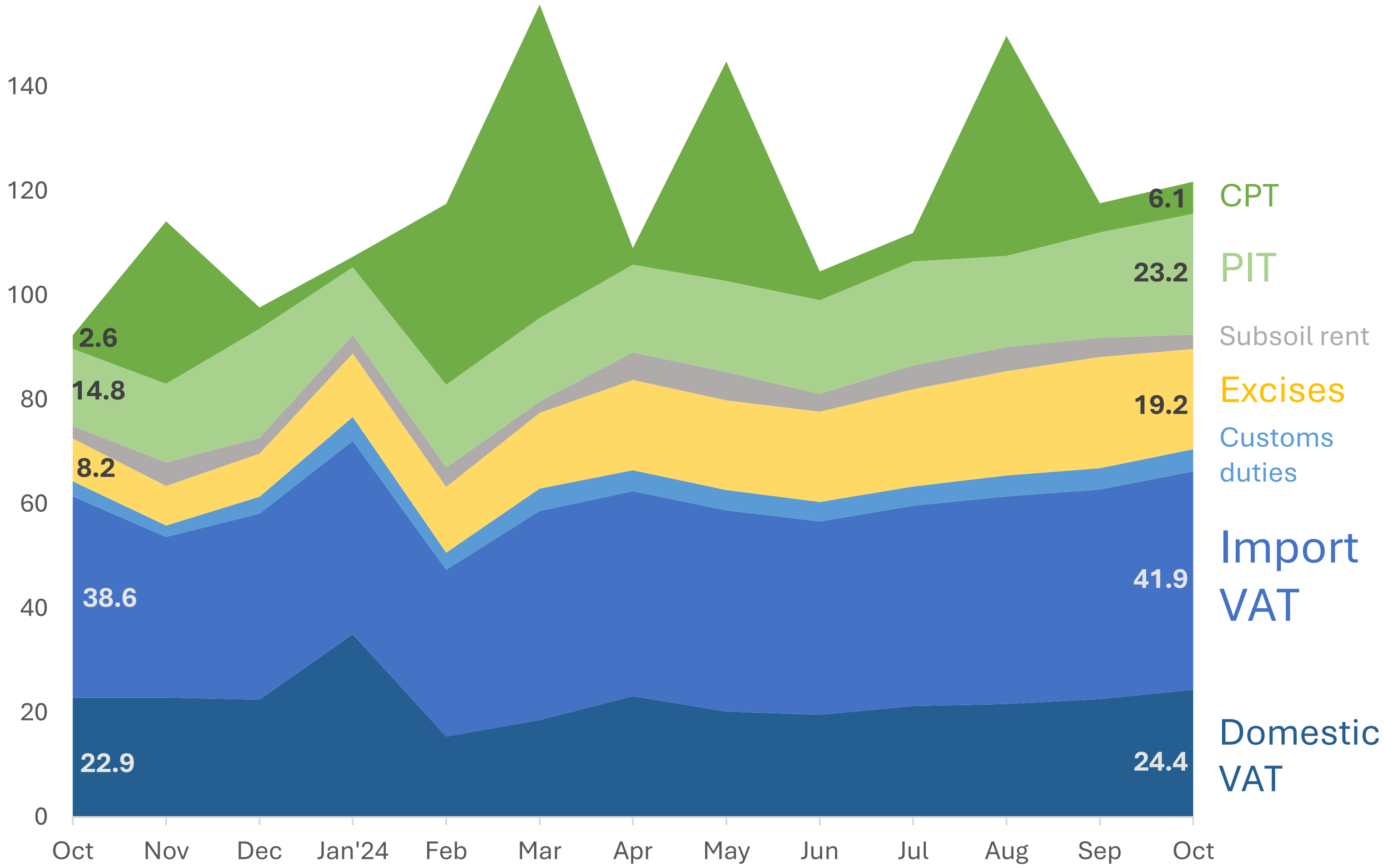
NBU business activity expectations index by sector in October



FISCAL SECTOR

Tax revenues growth trend continued in October

State budget tax revenues, UAH bn



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

In October, tax revenues of the state budget in were UAH 121.8 bn, adding 32% y-o-y.

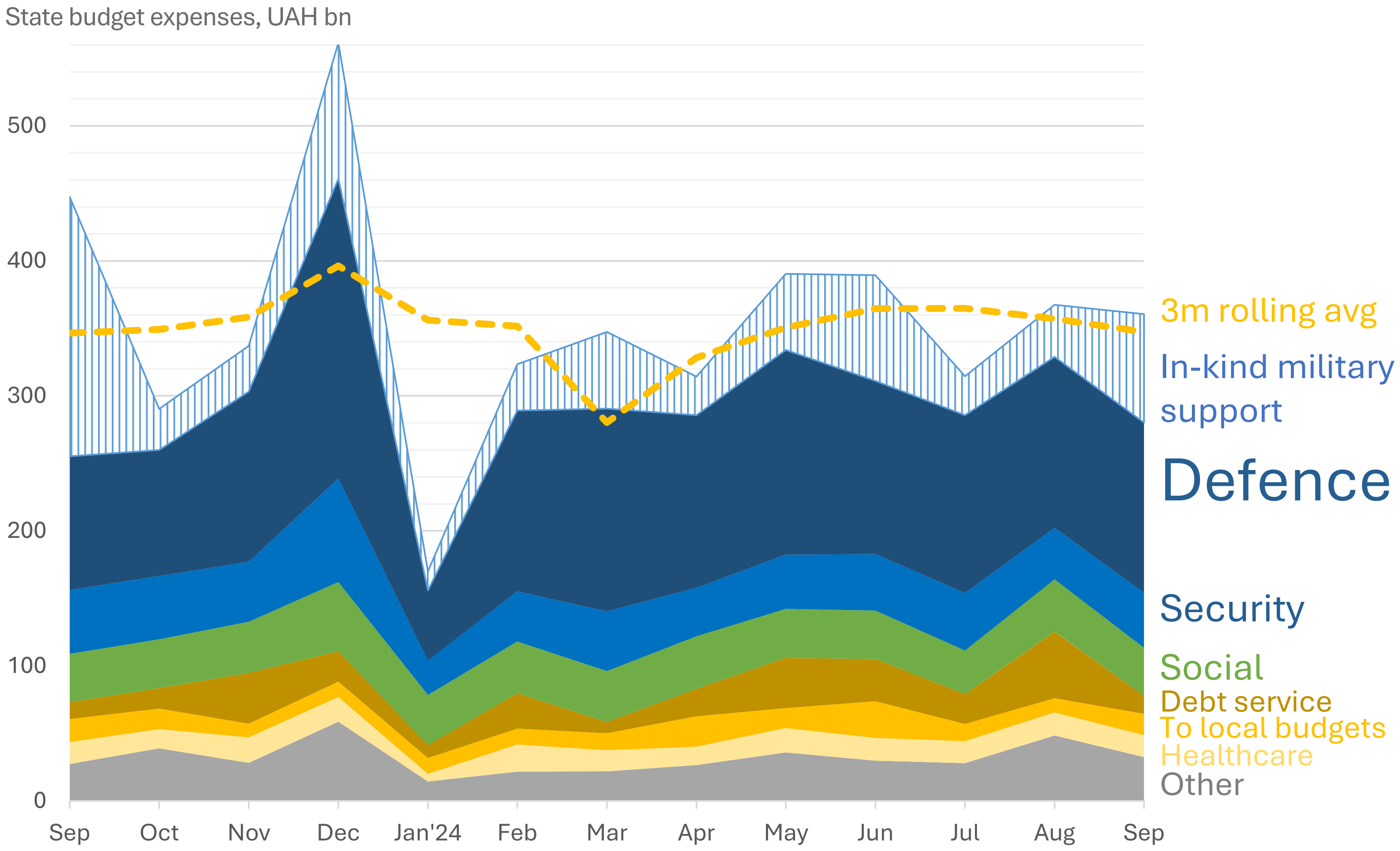
The growth continues to be driven by consumption taxes. Fiscal stimulus, FX, inflation, and stricter administration are key growth factors.

Excise revenues increased 134% y-o-y. VAT increased by 7.8% vs Oct 23.

The **tax increase package is yet to be signed by President,** which creates uncertainty for business, as well as for the budget process.

CENTRE FOR ECONOMIC STRATEGY

Defence spending stayed level; foreign military support increased



State budget expenses not including in-kind military support reached **UAH 2,977 bn for 9m 2024,** adding just 5.4% y-o-y.

Defence and security expenses reached **UAH 1,475 bn** for 9m 2024, with September expenses of UAH 166.7 bn remaining level for the 4th consecutive month.

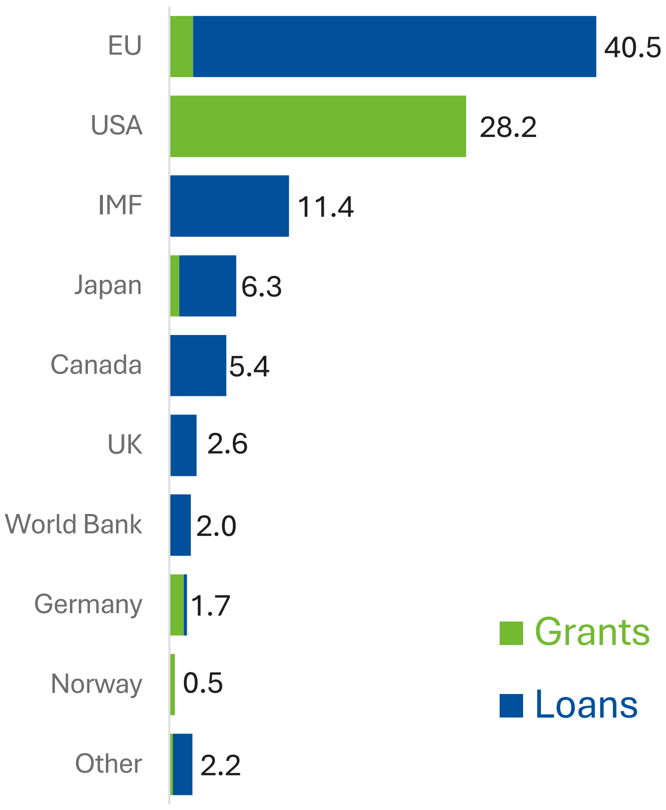
Debt service expenses in September were low at just **UAH 13 bn.**

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

FISCAL SECTOR

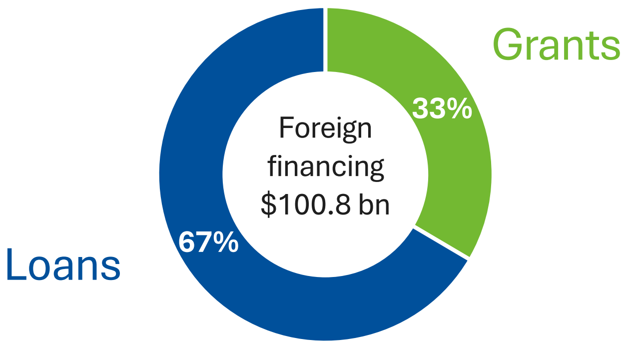
Ukraine has received more than $100 bn of foreign financing since 24 February 2022

Additional state budget financing disbursed during the full-scale war as of 13 November, $ bn

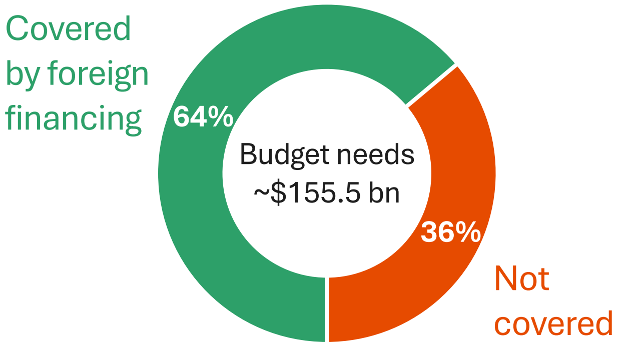


- Since the beginning of the full-scale invasion, **Ukraine has already received $100.8 bn in foreign financial assistance.** Foreign funding has kept the Ukrainian economy from collapsing during the full-scale war.
- In total, **27 different countries and organisations have financed the Ukrainian budget.**
- ~33% of the funding was disbursed to Ukraine form of grants, and 67% in form of concessional loans.
- **Even though the amount of funding provided to Ukraine is unprecedented, it is still less than the need.** During the years of the full-scale war, the state budget deficit exceeded $122 billion; another $33.5 billion was spent on repaying domestic and foreign debts.

Share of grants and loans in foreign financing, %



State budget financial needs coverage by foreign financing, %



Sources for all charts: Ministry of Finance, NBU, CES calculations

MONETARY, FX AND BANKING SECTORS

CENTRE FOR ECONOMIC STRATEGY

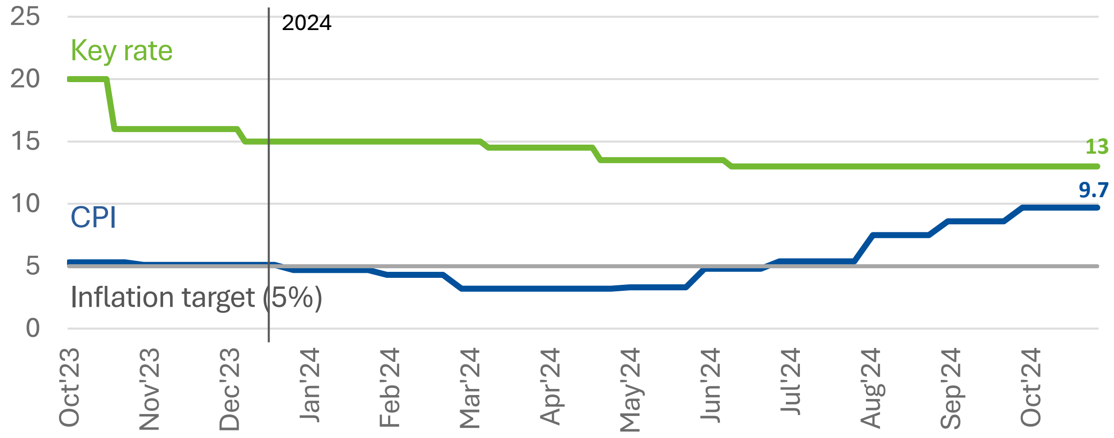
Inflation accelerated to 9.7%, and key rate policy remained the same – 13%

Key rates as of October 31, 2024 (CPI y-o-y in October 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	12.61	0.07 p.p.
3-m deposit rate	12.85	0.07 p.p.
Inflation (CPI)	9.70	1.10 p.p.

Sources: NBU, State Statistics Service, UIRD

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



Source: NBU, State Statistics Service

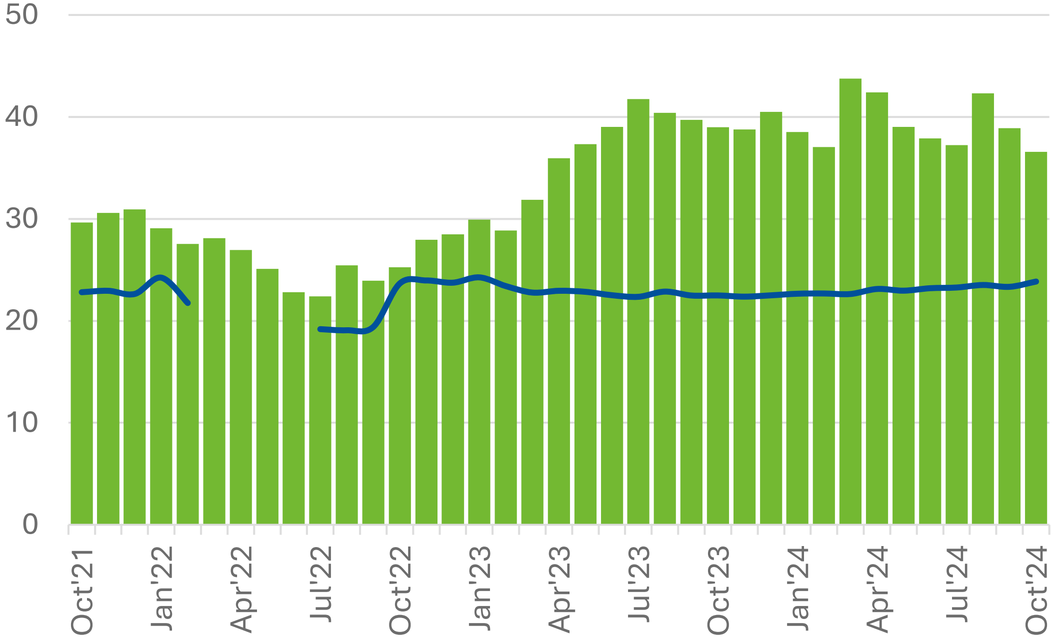
- In the end of October, NBU decided to keep the **key policy rate at 13%** to maintain the sustainability of the FX market, keep inflation expectations under control, slow down it in 2025, and bring it back to 5% target in the following years.
- **The key policy rate will likely remain at 13% in the coming months**. However, there is a chance that NBU could raise it to 14% due to price pressures exceeding the forecast.
- Yields on 3- and 12-month deposits and government bonds have remained at October levels, continuing to protect savings from inflation.
- In October 2024, **inflation accelerated to 9.7% y-o-y** — +1.8% m-o-m — due to smaller supply of food products and further growth in business costs of power and labour.

International reserves declined and hryvnia stayed relatively stable

In October, **international reserves fell by 6.0% to $36.6 bn** (4.6 months of import coverage), as NBU's interventions aimed to address the structural deficit and stabilise the exchange rate fluctuations, while FX inflows remained insufficient.

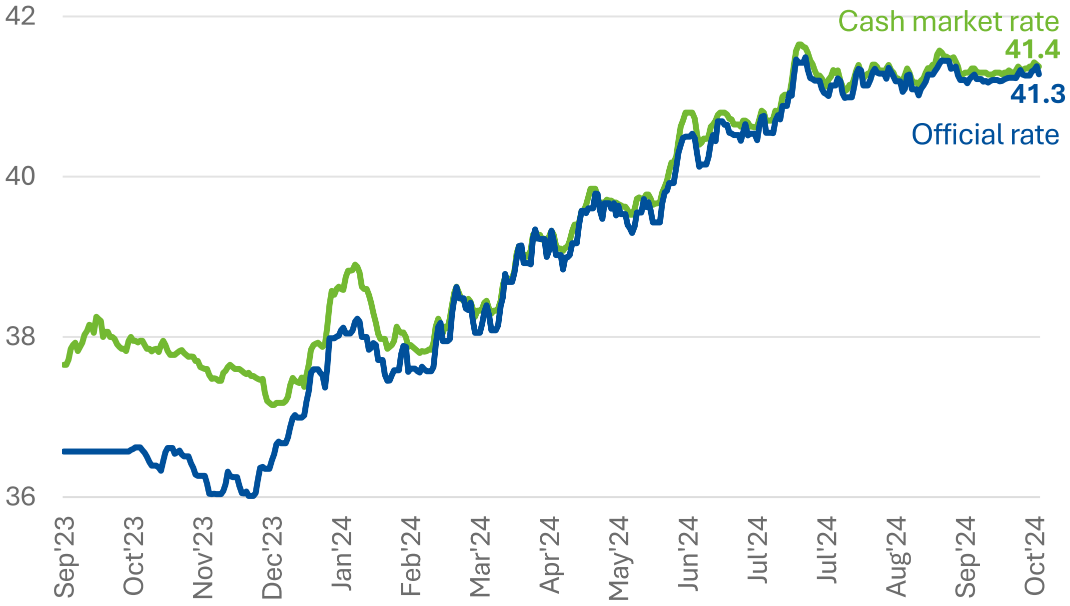
In October, net FX demand was still significant. To stabilise the FX market**, the NBU increased net FX sales to $3.4 bn.** This kept the hryvnia relatively stable, and **the cash-official rate spread below 1.0%.**

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)

CENTRE FOR ECONOMIC STRATEGY

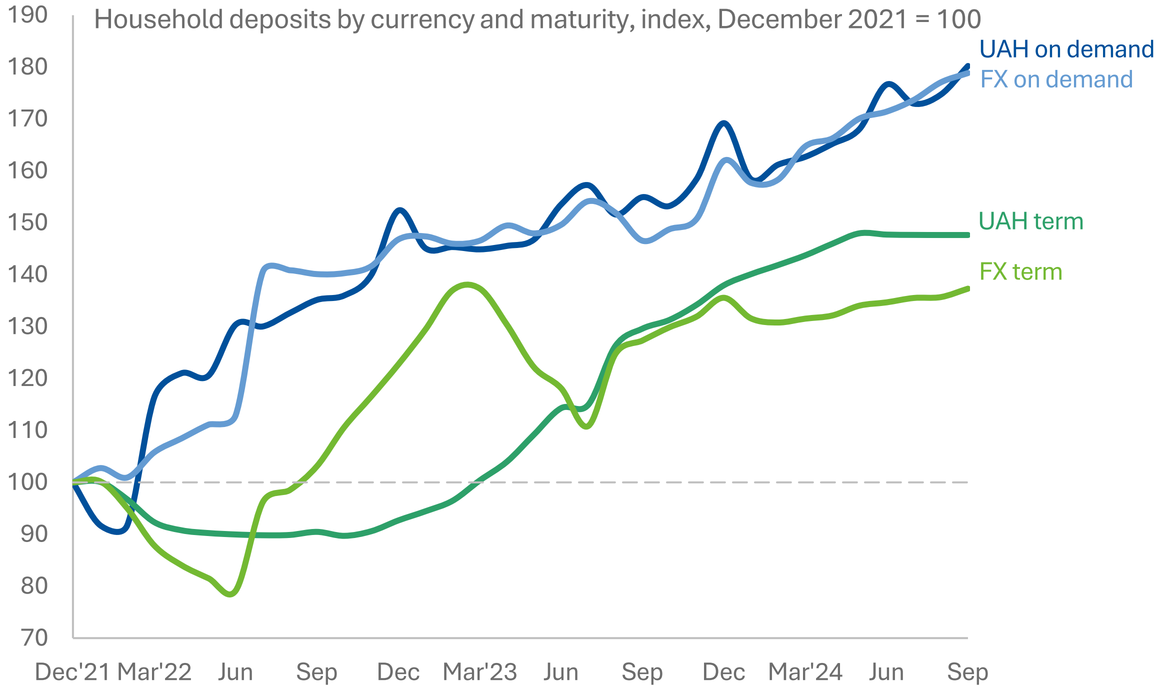
Household deposits on demand and hryvnia loans continued to demonstrate growth

The latest funding survey shows **that deposits from all clients – households and businesses alike – rose in volume.**

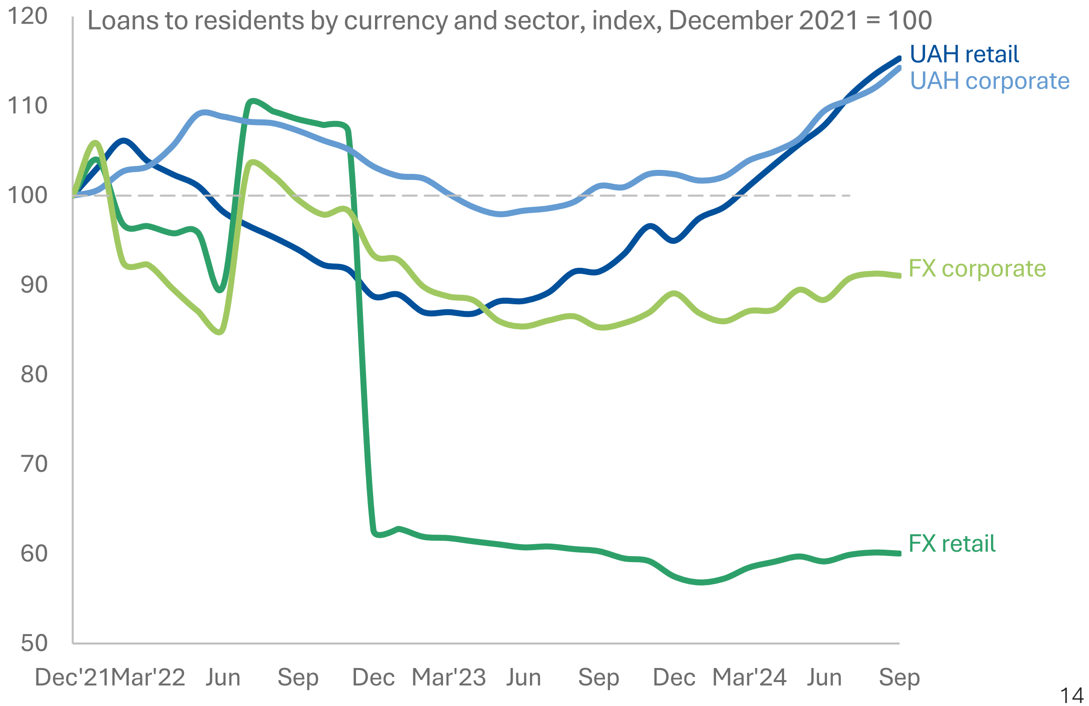
Banks expect **deposit interest rates**, especially for households**, to decline further in the coming months**, with overall deposit maturity shortening over the next year.

The latest lending survey shows the biggest rise in corporate loan demand since 2021, led by **hryvnia-denominated, long-term, and SME loans.**

Retail loan demand rose, led by **consumer loans and driven by improved consumer sentiment, lower rates, and a strong real estate outlook.**



Source: NBU



Source: NBU

KEY MACROECONOMIC INDICATORS

CENTRE FOR ECONOMIC STRATEGY

What will be with our main indicators in the coming years?

Key macroeconomic indicators

Indicators	2024	2025	2026
Real GDP, change, %	4.0 (3.7)	4.3 (4.1)	4.6 (4.8)
Nominal GDP, UAH bn	7,630 (7,590)	8,720 (8,620)	9,715 (9,625)
CPI, y-o-y, % (eop)**	9.7 (8.5)	6.9 (6.6)	5.0 (5.0)
Current account balance, $bn	-16.3 (-14.2)	-27.9 (-19.0)	-28.4 (-23.5)
Gross reserves, $bn	43.6 (41.2)	41.0 (37.3)	34.7 (32.0)

* in brackets – previous forecast (inflation report, July 2024)
** end of period (December to December of the previous year)
Source: NBU

- **The NBU has raised its 2024 GDP growth forecast to 4.0%,** with growth expected to accelerate to **4.3% in 2025 and 4.6% in 2026.** Recovery will be fuelled by loose fiscal policy, rising wages, strong external demand, and energy sector investments, though labour shortages, security risks, migration, and slow normalisation will limit growth.

- **Inflation is expected to reach 9.7% by the end of 2024**, driven by food shortages, increased demand, and energy issues. **It will exceed 10% in early 2025 but decline to 6.9% by the end of the year, with further reduction to 5% by 2026** as energy conditions improve and harvests grow. NBU policies will help manage inflation expectations.

- The budget deficit will gradually **decrease from 23.3% of GDP in 2024 to 12.4% in 2026.** Ukraine will receive international support, **maintaining reserves at USD 43.6 bn by end-2024,** with reserves expected to **decline to USD 34.7 bn by 2026, still sufficient for FX market stability.**

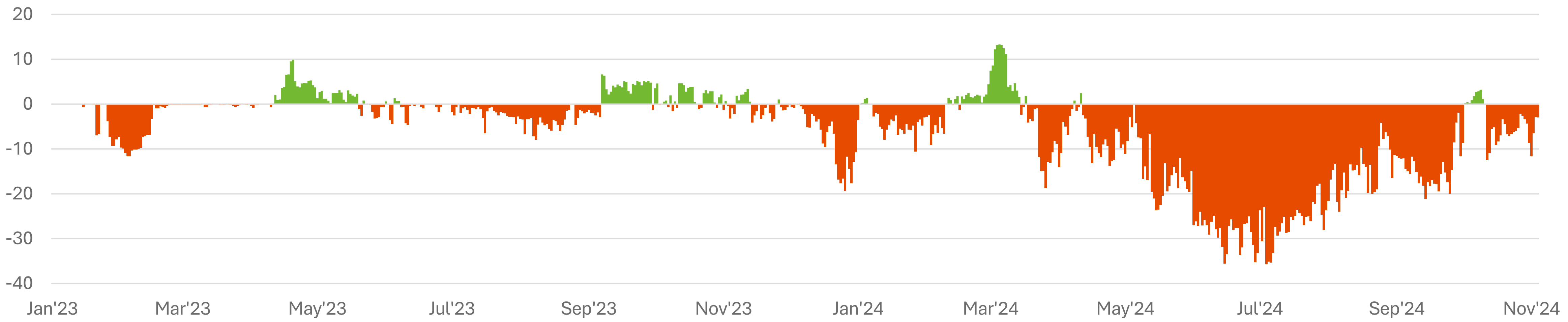
CENTRE FOR ECONOMIC STRATEGY

SECTORAL ANALYSIS

Ukraine starts the heating season by reducing electricity imports

- **Electricity imports in October declined 3.6 times** to 121 GWh. This is a result of commercial imports of 182 GWh and commercial exports of 61 GWh.
- October 2-9 were the only dates with net commercial exports since April.
- **The government launched a large-scale program of winter support for Ukrainians.** This includes housing subsidies for 2.8m families, with simplified procedures for military personnel and IDPs. Approximately 500,000 households will receive financing for the solid fuel purchase, including wood and coal. The families, living in the front-line regions, have already received about UAH 21,000 per family.
- **The heating season has started in Ukraine**, but in most of the territory, scheduled power outage schedules have not been applied for the past two months. the shortage of electricity will increase with the cooling.
- At the same time, **business and industry in certain regions are subject to scheduled outages or power restrictions** starting November 13. Ukrenergo cites a short-term decrease in the capacity of flexible generation and a significant reduction in electricity imports as the reason for these measures.

Ukraine net electricity commercial exports in 2023-2024, GWh



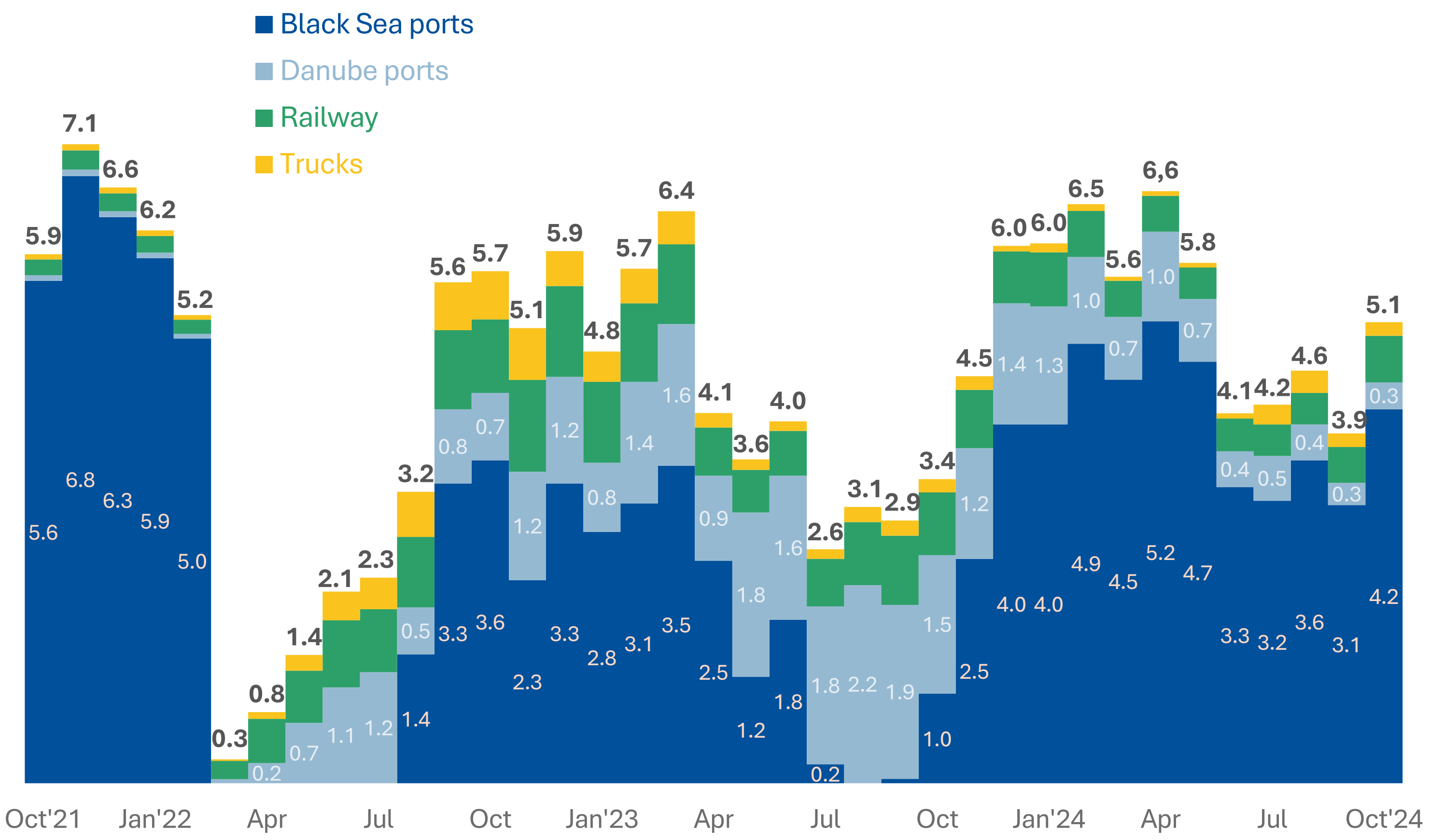
Source: ENTSO-E

SECTORAL ANALYSIS

CENTRE FOR ECONOMIC STRATEGY

High season for Ukrainian agri exports started in October

Exports of grain and oilseeds by transport and total, mt



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

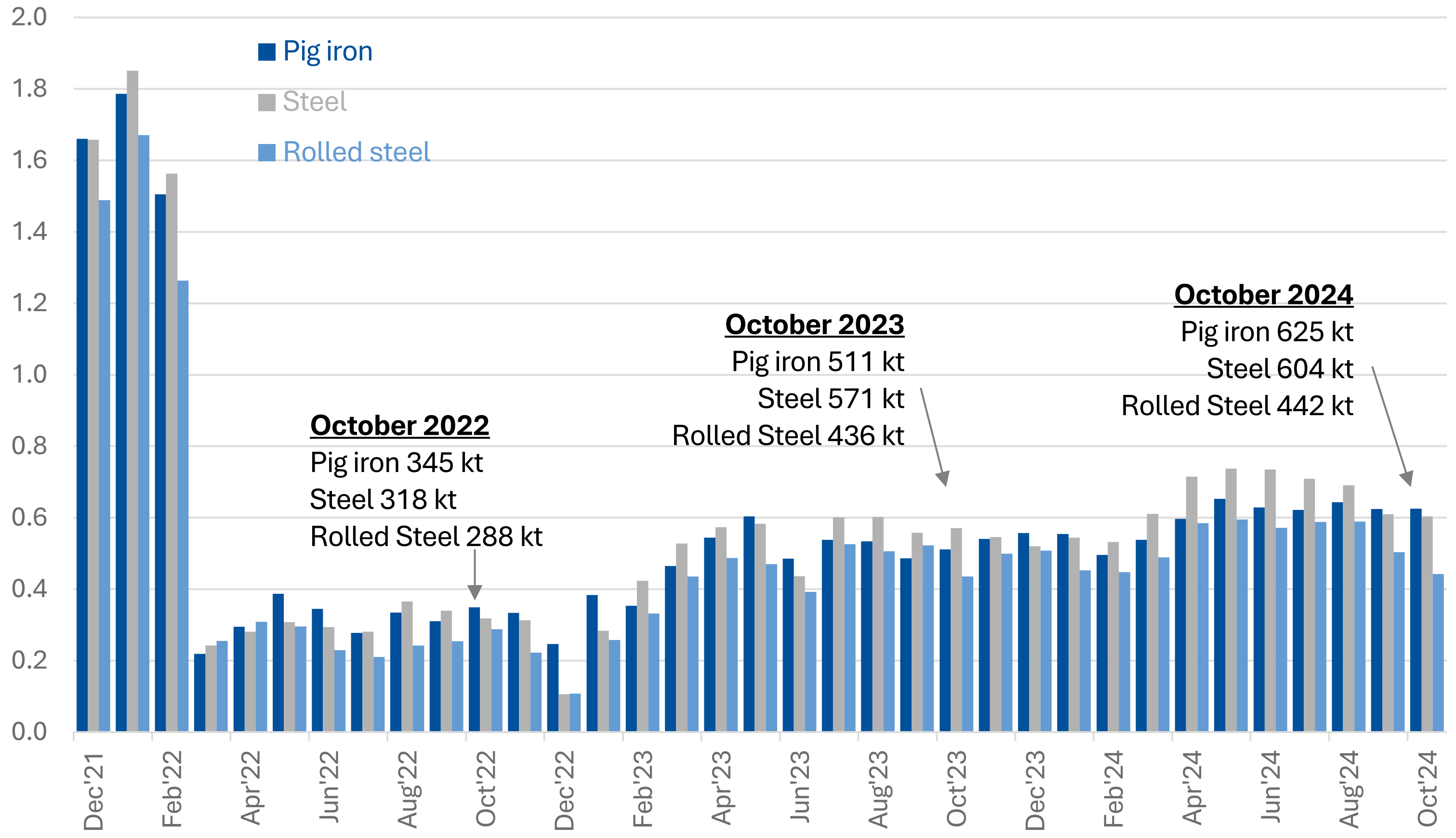
- **In October, grain and oilseeds exports expectedly increased** by 32% m-o-m to reach 5.1 mt.
- In 10M2024, **agri exports reached 52.5 mt**, 29% up y-o-y.
- According to estimates, **this year's harvest of grains and oilseeds will decrease** from 82 mt to 73-75 mt.
- The share of grain and oilseeds **exports through seaports reached its highest level** during the war – 81%. The share of rail exports stays at 10%.
- **Demining** of agricultural land in the de-occupied territories continues. In October, 24,000 ha were cleared of mines, and 289,000 ha in 10M2024, 80% of which are in Kherson region.

IRON & STEEL SECTOR OVERVIEW

CENTRE FOR ECONOMIC STRATEGY

Steel production on 8-month low but still higher than in 2023

Ukraine ferrous production by main categories, mt

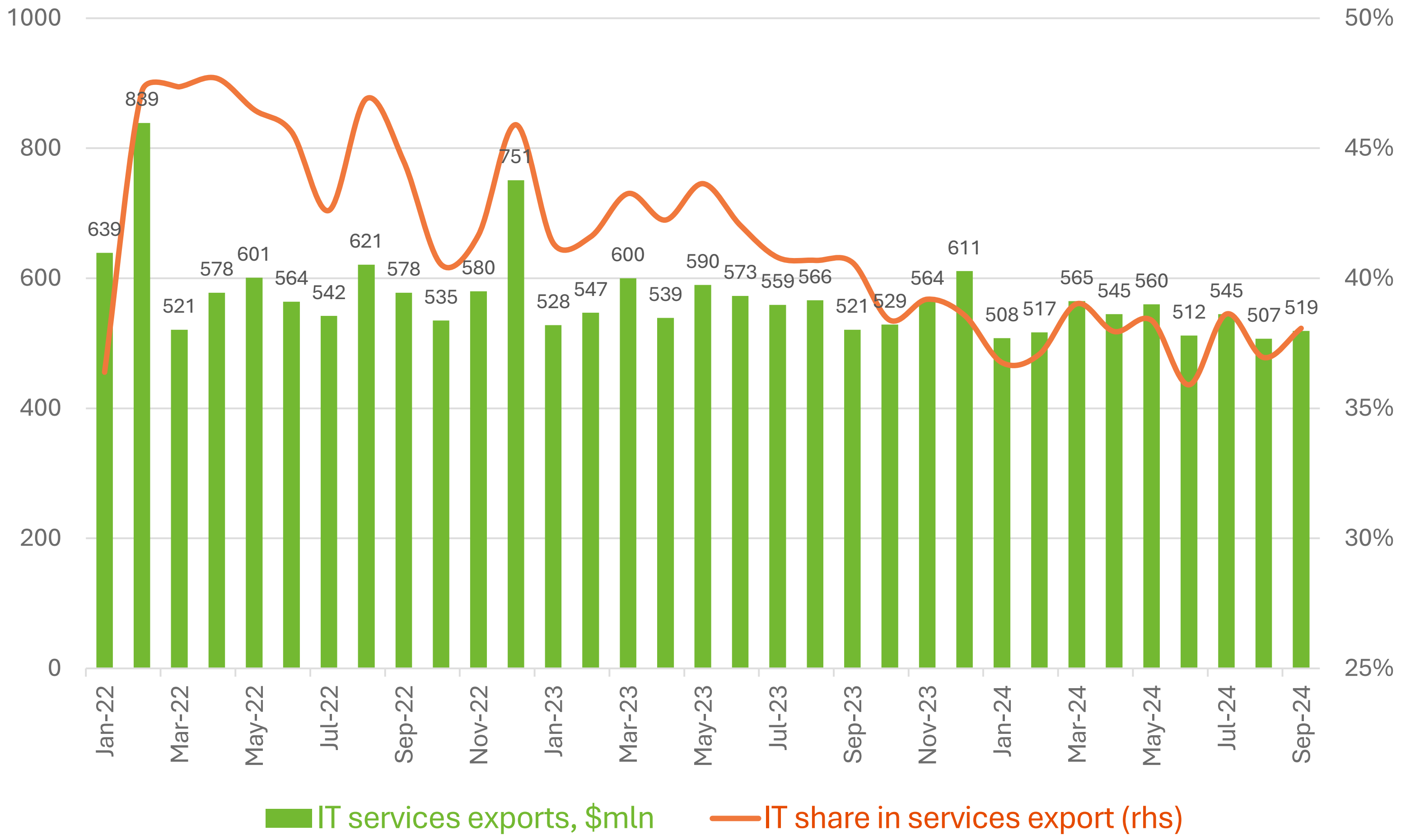


Source: Ukrmetalurgprom

- In October, production of major steel products continued to decline. **Steel production decreased by 1% m-o-m to 604 kt**, the lowest level in the last 8 months. Rolled steel production plummeted by 12% to a yearly low of 442 kt.
- **Pig iron production increased by a symbolic 0.1% m-o-m** to 625 kt, but this was solely due to more days in October.
- Thanks to a relatively successful start of the year, **iron & steel production in 10M2024 shows 21-26% growth y-o-y**.
- **Domestic consumption** of semi-finished and rolled steel products in Ukraine **fell by 10% to 2.6 mt** in 10M2024. 1 mt (39%) of this amount was imported.
- **Ukraine increased iron ore exports by 31.5% m-o-m to 2.54 mt**. In 10M2024 it almost doubled to 27.8 mt. The average export price was $84 in 10M2024 and only $66 in October.

CENTRE FOR ECONOMIC STRATEGY

IT exports slightly rebounded after a wartime low and stayed over $500m per month



Sources: NBU, CES calculations

- **Exports of IT services in September increased by 2%** m-o-m after the wartime minimum in August and reached $519m.
- **IT exports in 9M2024 reached $4.78 bn** — down 5% y-o-y.
- **The number of vacancies in IT grew by 8% in October** and reached a maximum during the full-scale invasion — 5684. The greatest demand is for marketers and analysts. There is also a need for front-end developers, project managers and HR specialists.
- **Key importers of Ukrainian IT services are the US (38%)**, the UK (9%), and Malta (8%). IT exports from Ukraine to the US reached $2 bn in 10M2024.

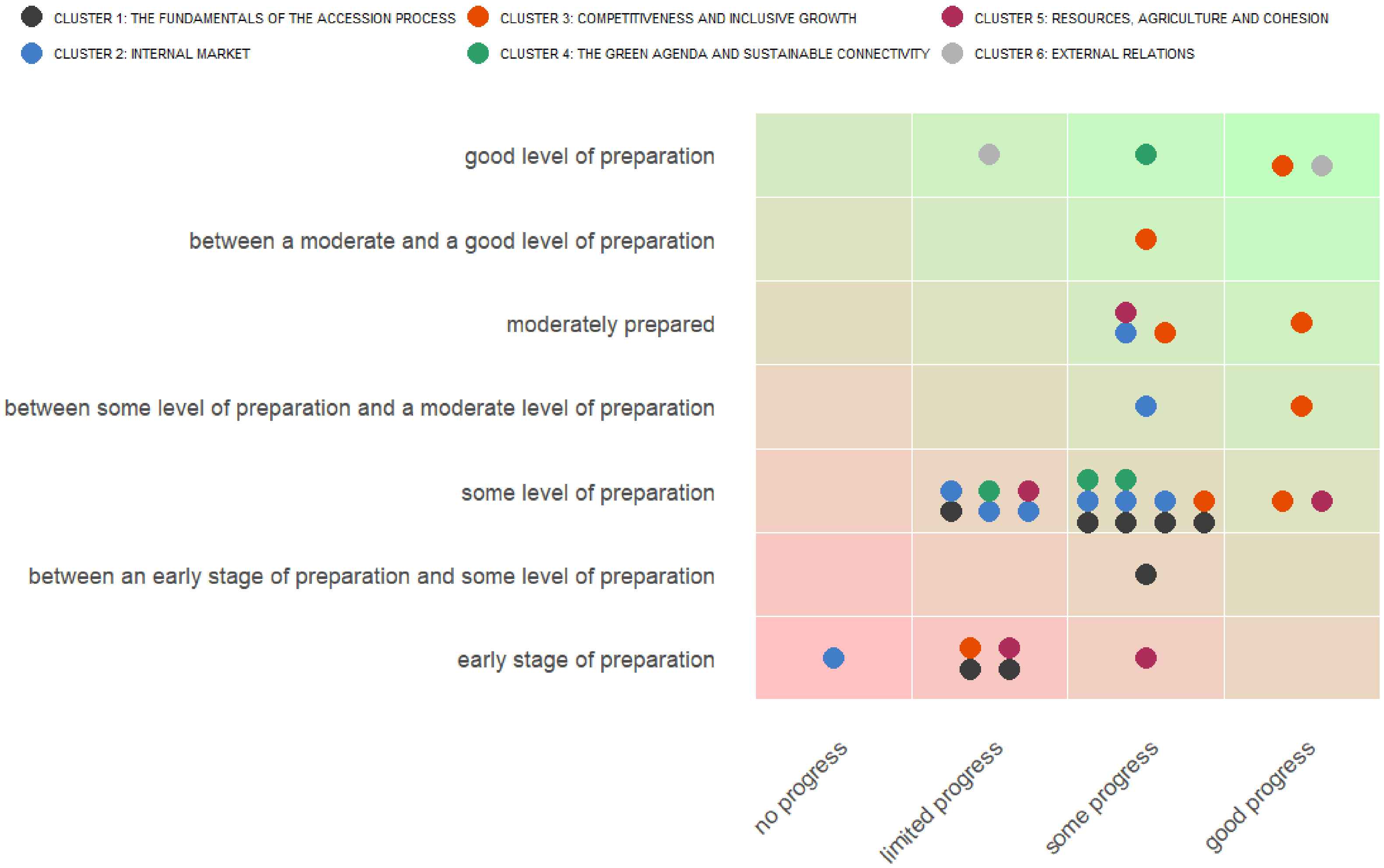
CENTRE FOR ECONOMIC STRATEGY

EUROINTEGRATION

PROGRESS MADE IN 2024: GENERAL OVERVIEW

According to Ukraine Enlargement report, Ukraine made limited progress in 2024

Eurointegration in Ukraine: level of preparation and progress in 2024 (by clusters)



Sources: CES visualisation based on Ukraine Enlargement report 2024

- **Chapters 29** (Customs Union) and **31** (Foreign, Security, and Defence Policy) demonstrate both a **good level of preparation** and **good progress.**
- Good progress was also made regarding Chapters **16, 17**, and **20** (Taxation, Economic and Monetary Policy, Enterprise and Industrial Policy).
- **Chapter 2** (Freedom of Movement for Workers) shows the most lag.
- Compared to 2023, only Chapter 20 (Enterprise and Industrial Policy) showed a change in preparation level, improving from **some** to **between some and moderate** level of preparation.

WHAT ADOPTING EU ACQUIS IMPLIES FOR THE UKRAINE’S ECONOMY

CENTRE FOR ECONOMIC STRATEGY

Ukraine has implemented numerous economic reforms, which have a profound effect on economic resilience

- **Financial Services reforms**: EU-driven reforms have strengthened Ukraine's banking sector through better regulation, transparency, and anti-money laundering measures. These reforms have improved financial stability and helped build a more resilient financial system.
- Progress in terms of **Free Movement of Capital** is being facilitated by establishing transparent ownership structure and removing barriers to capital (including Ukrainian enterprises).
- **Economic and Monetary Policy** reforms are currently concentrated on establishing medium-term budgeting and maintaining “healthy” money market.
- Implementation of **Agriculture and rural development** acquis will help to establish an adequate agricultural land accounting system and transparent mechanism for subsidies and direct payments.

KEY CHALLENGES

CENTRE FOR ECONOMIC STRATEGY

Ukraine’s accession negotiations have begun with the Fundamentals and will conclude with the Fundamentals

- **Fundamentals of the accession process** include
  - Democracy
  - Public administration reform
  - Chapter 23: Judiciary and fundamental rights
  - Chapter 24: Justice, freedom and security
  - The existence of a functioning market economy
  - The capacity to cope with competitive pressure and market forces within the Union
  - Chapter 5 - Public procurement
  - Chapter 18 - Statistics
  - Chapter 32 - Financial control
- Ukraine’s performance in terms of fundamentals lags behind.
- Structural economic changes take time – yet they start with reforms.
- **Key challenges** for Ukrainian economic policy include:
  - The lack of consistency
  - The lack of evidence-based approach
  - Limited administrative and technical capacity

CENTRE FOR ECONOMIC STRATEGY

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.