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Economy review in November

Special topic: Ukraine's budget for 2025: Army. Taxes.
Russian assets



EXECUTIVE SUMMARY

EXECUTIVE SUMMARY: UKRAINIAN ECONOMY IN NOVEMBER 2024

- **Macroeconomic trends:** In January-November 2024, Ukraine's GDP increased by 4% y-o-y according to the Ministry of Economy. GDP growth by the end of 2024 will likely be higher than 4.0% as forecasted by the NBU. Business expectations worsened in November in all surveyed sectors. The most negative impact was caused by the increased intensity of hostilities and the resumption of power outages.
- **Fiscal sector:** In November, there were record state budget revenues, but consumption taxes growth stopped. Ukraine received \$6.5 bn of foreign budgetary assistance.
- **Monetary, FX, and Banking sector:** Inflation accelerated to 11.2% and key rate was increased to 13.5% on 12 December. International reserves increased to \$39.9 bn, and hryvnia remained relatively stable. In the banking sector, there was a strong growth in UAH deposits and retail loans amid stable FX trends. NBU approved Concept of 2025 resilience assessment of banks and banking system.
- **Sectoral analysis:** Ukraine faces power shortages due to Russian attacks and bad weather. The share of seaports in agri exports reached 86%, a new wartime high. Steel production in Ukraine declined for the sixth month in a row. IT exports rebounded in autumn after reaching a wartime low in August.
- **Special topic:** Budget 2025 is the fourth war budget. Expenditures are much larger than revenues. Revenues increase but are still not enough to cover all the needs. Financing assistance will cover the budget gap in 2025.

See our report below for further details.

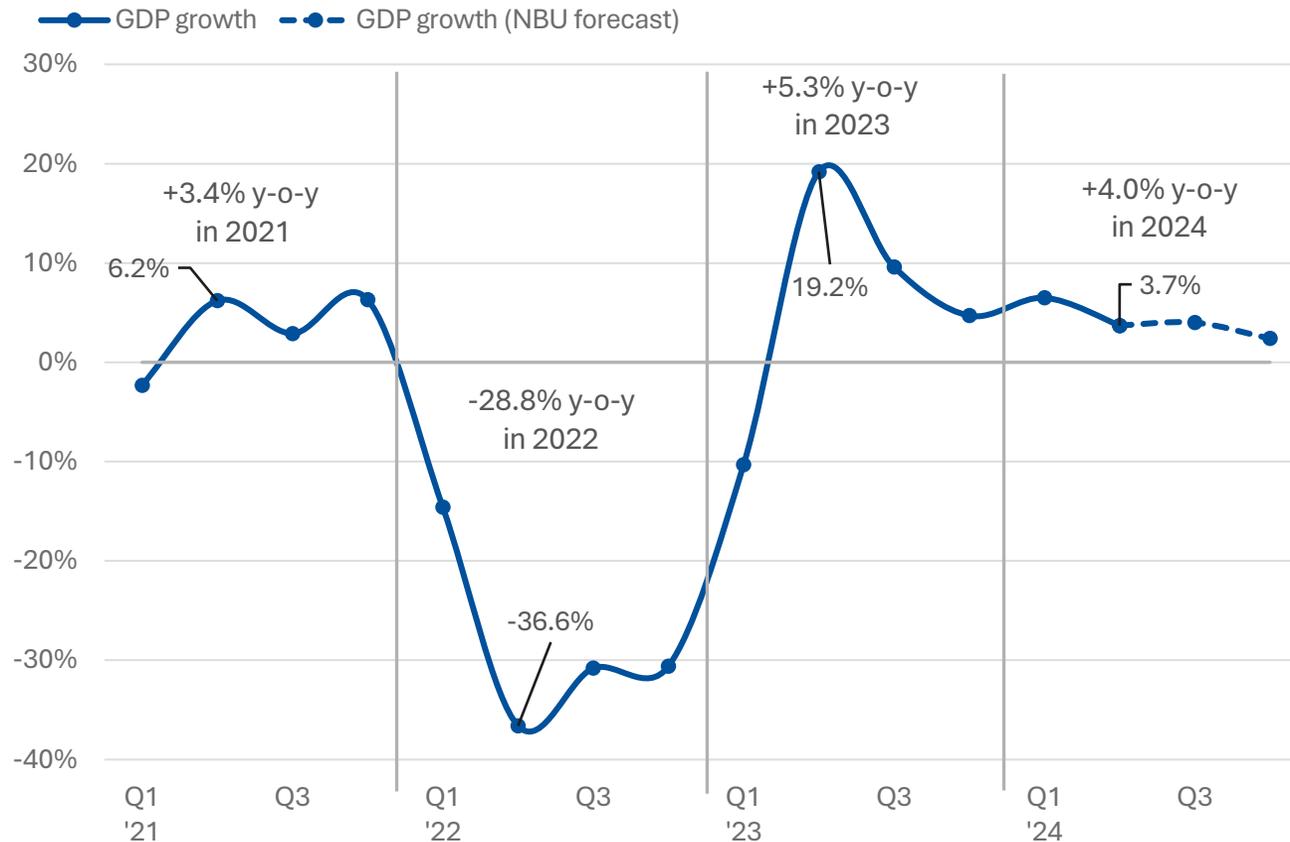


MACROECONOMIC TRENDS

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GDP growth of 4% in 11m 2024 — higher than NBU forecast

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

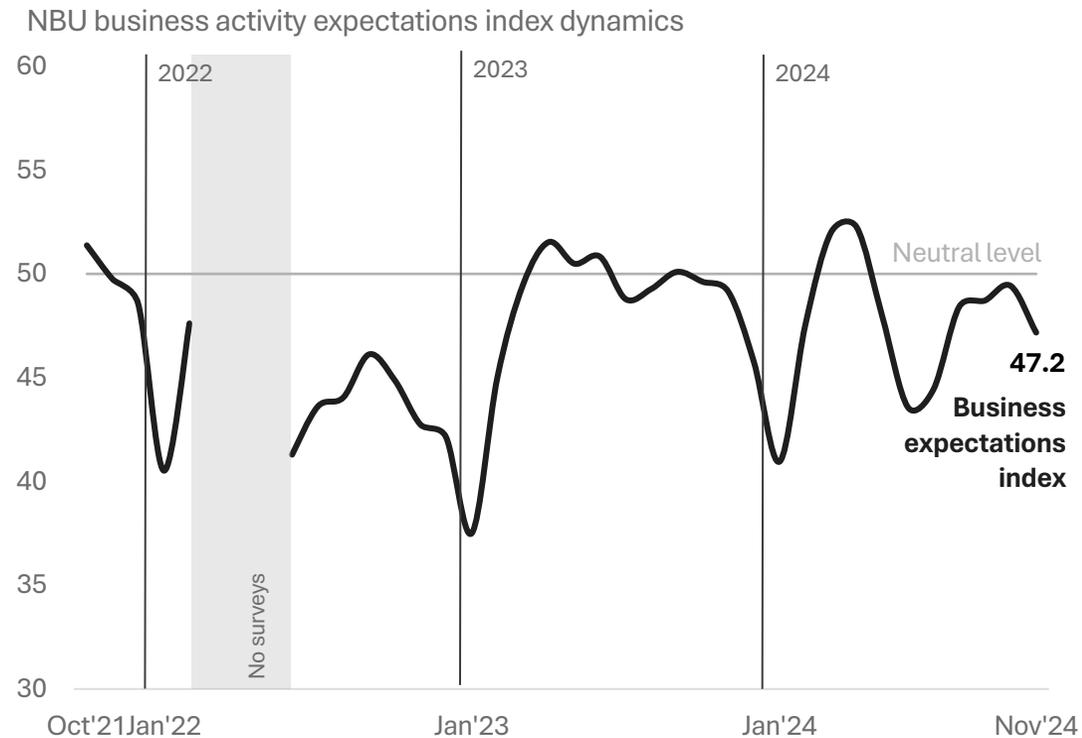


- In January-November 2024, Ukraine's GDP increased by 4% y-o-y according to the Ministry of Economy. In November, the economy grew by 0.9% year-on-year
- GDP growth by the end of 2024 will likely be higher than 4.0% as forecasted by the NBU.
- Growth drivers are still transport and construction, manufacturing, and domestic trade.
- Lower-than-expected electricity shortages and slightly higher harvests of early grain crops contribute to better GDP recovery.

MACROECONOMIC TRENDS

Business expectations worsened in November

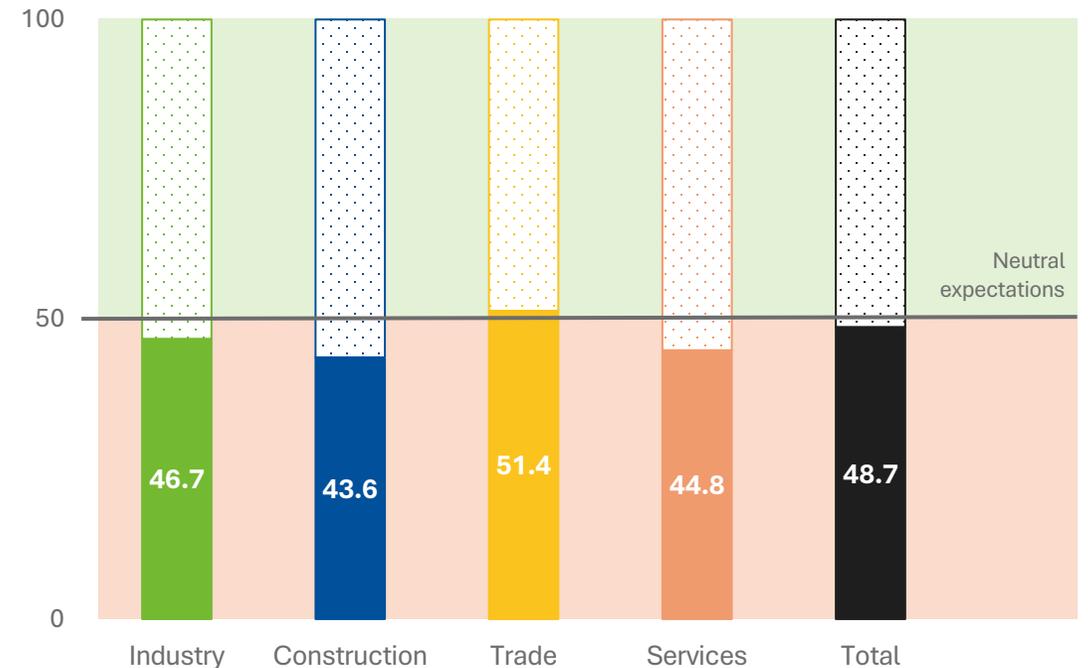
In November, the NBU's business activity expectations index decreased to **47.2**, down from 49.4 in October, and remained below the neutral level of 50 points. This means that negative sentiment prevail among all surveyed businesses.



Source: NBU

Sentiment worsened in all surveyed sectors. The most negative impact was caused by the increased intensity of hostilities and the resumption of power outages. The further dynamics of business sentiment is likely to depend on changes in the energy supply situation.

NBU business activity expectations index by sector in November



MONETARY, FX, AND BANKING SECTORS



MONETARY AND FX SECTOR

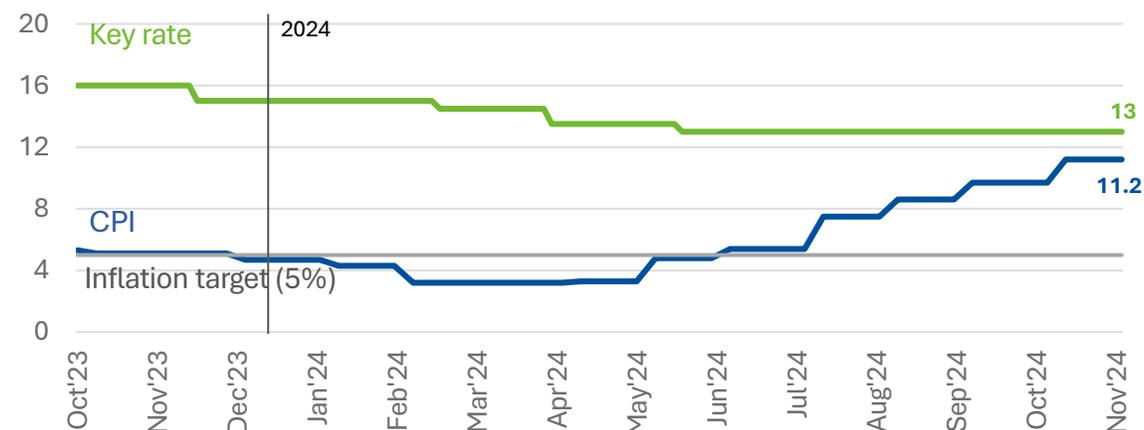
In November, inflation accelerated to 11.2% and key rate was then increased to 13.5%

Key rates as of November 30, 2024 (CPI y-o-y in November 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	12.92	0.31 p.p.
3-m deposit rate	13.00	0.15 p.p.
Inflation (CPI)	11.20	1.50 p.p.

Sources: NBU. State Statistics Service. UIRD

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



Source: NBU, State Statistics Service

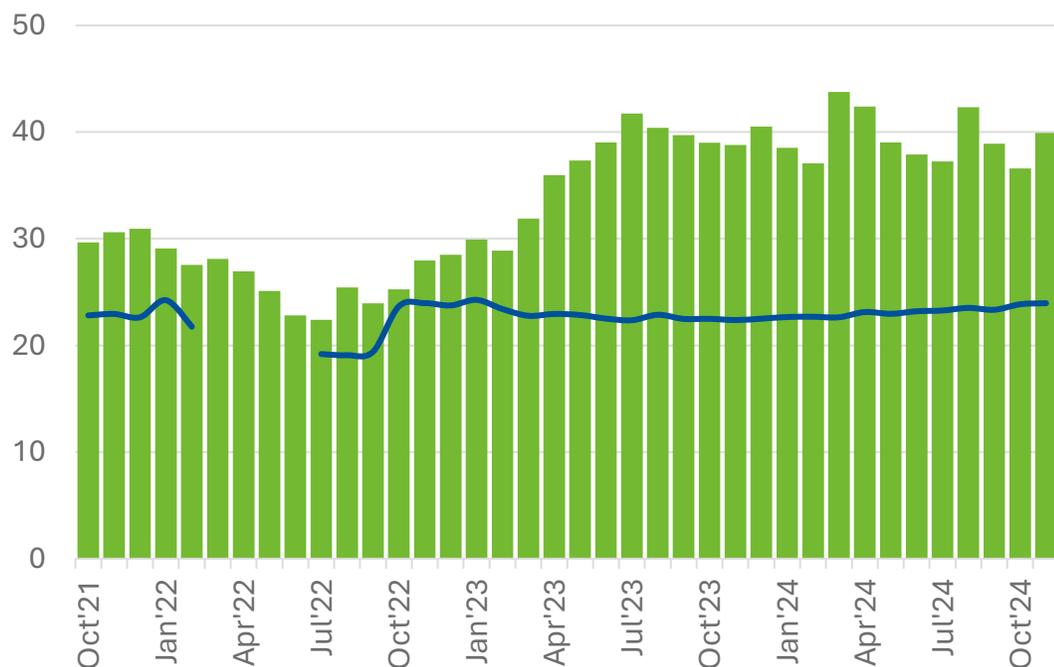
- On 12 December, NBU decided to raise the **key policy rate to 13.5%** to maintain the stability of the FX market, keep the inflation expectations under control, and gradually slow it to the target of 5%.
- This increase in the key policy rate will **support the real yield of hryvnia instruments** and help reduce pressure on the exchange rate and prices.
- **The yield of hryvnia instruments** – both government bonds and deposits – **remains higher in real terms** than forecasted inflation.
- In November 2024, **inflation accelerated to 11.2% y-o-y** — +1.9% m-o-m — due to stronger-than-expected impact of adverse weather conditions on crops, higher costs of raw-food inputs, and further growth in business costs of power and labour.

MONETARY AND FX SECTOR

International reserves increased to \$39.9 bn and hryvnia slowly depreciated

In November, **international reserves grew by 9.1% to \$39.9 bn** (5.0 months of import coverage) due to large inflows from international partners (mostly from the World Bank and the US) and decreased net FX sales.

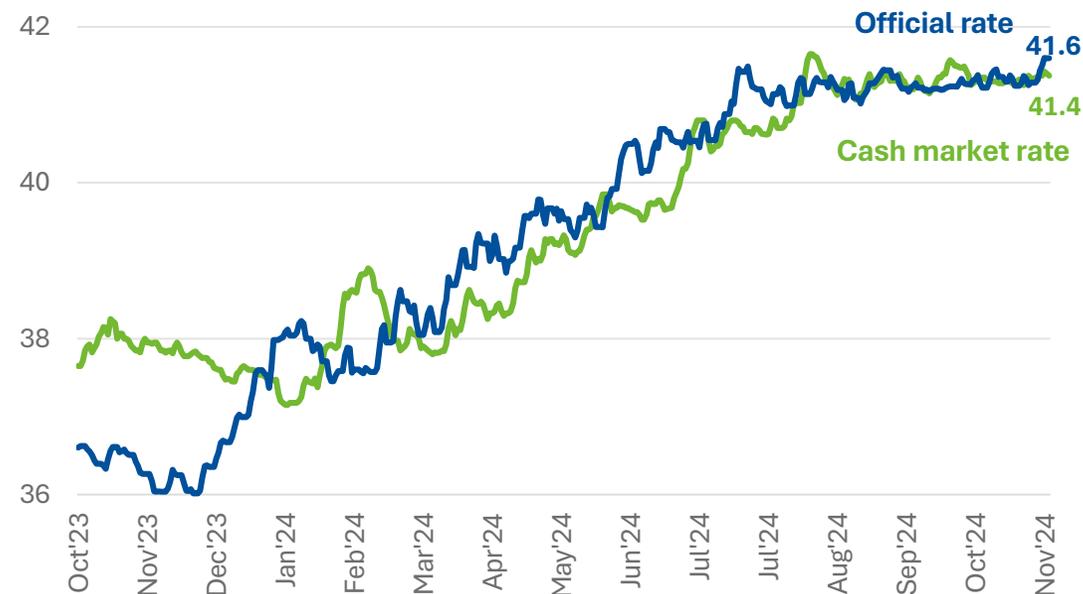
Gross international reserves and their amount needed to cover three months of future imports, \$ bn



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

Hryvnia slowly and moderately depreciated at the end of November, from 41.3 to 41.6 UAH/\$ after several months of stability. The NBU reduced FX interventions to \$2.7 bn. Gradual FX liberalisation and stricter compliance measures ensured market stability.

Average daily official and market exchange rates UAH/USD

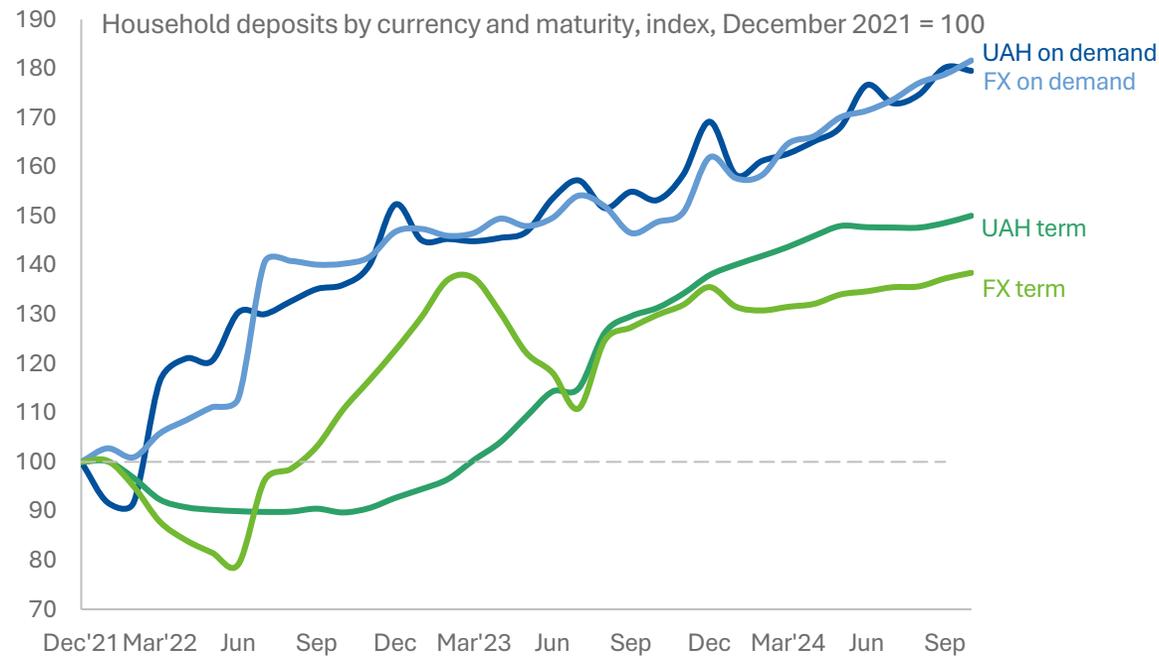


Source: NBU (official rate), index.minfin.com.ua (cash market rate)

BANKING SECTOR

Strong growth in UAH deposits and retail loans amid stable FX trends

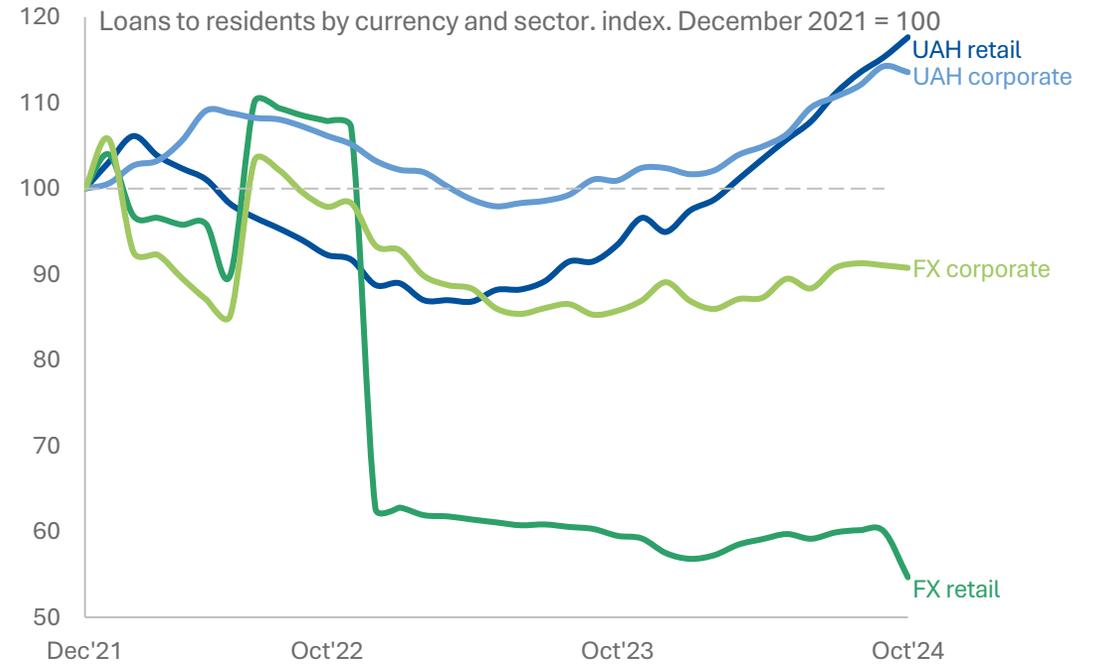
In October 2024, UAH on-demand deposits showed **notable growth**, while FX on-demand deposits **increased at a slower pace**. **UAH term deposits continued to grow steadily** whereas **FX term deposits remained stable**. The data highlights stronger growth in UAH deposits especially in on-demand accounts compared to FX deposits.



Source: NBU

In October 2024, UAH retail loans grew while UAH corporate loans declined after the increase within the last year. **FX corporate loans remained stable and FX retail loans stagnated at low levels.**

This highlights robust growth in UAH retail loans versus subdued FX loan performance.



Source: NBU

NBU approves Concept of 2025 resilience assessment of banks and banking system

The Board of the National Bank of Ukraine has approved **the concept of resilience assessment of the banks and the banking system in 2025.**

Following a three-year break, the resilience assessment of the banks and the banking system will take place under standard procedure whereby external auditors make an **asset quality review (AQR)** and an adverse scenario is applied within the stress-testing framework.



Stage I. Asset Quality Review

The AQR is mandatory for all banks. It checks asset quality and collateral eligibility based on NBU credit risk standards. If errors in the core sample exceed thresholds, auditors expand the review to a larger sample.



Stage II. Extrapolation

This phase extrapolates the results of the AQR's in-depth review of assets. The NBU carries out Stage II only for the banks whose assets underwent the in-depth review.



Stage III. Stress Testing

The NBU conducts stress testing for baseline and adverse scenarios using three-year forecasts. It covers major banks and those needing capitalization, involving 20 banks and over 90% of net assets, based on data as of 1 January 2025.



SECTORAL ANALYSIS

SECTORAL ANALYSIS

Ukraine faces power shortages due to Russian attacks and bad weather

- **Net electricity imports unchanged in November** at 121 GWh. This is a result of commercial imports of 163 GWh and commercial exports of 42 GWh.
- **In November, net electricity exports were recorded for 5 days**, the last time on November 17. Since the beginning of December, Ukraine has not commercially exported electricity.
- **Scheduled electricity supply restrictions** for residential and commercial consumers continue in Ukraine in accordance with the approved schedules.
- **Since the beginning of December, DTEK has restored electricity supply to 23 000 consumers** in 25 localities affected by Russian attacks. Most of them are in Dnipropetrovsk oblast (12 900), as well as in Donetsk and Kyiv oblasts.
- **Weather conditions are another cause of damage to power lines** in addition to Russian attacks. As of 10 December, 66 settlements in four regions — Chernivtsi, Odesa, Dnipro, and Mykolaiv — were without power due to rain, wind, and snow.

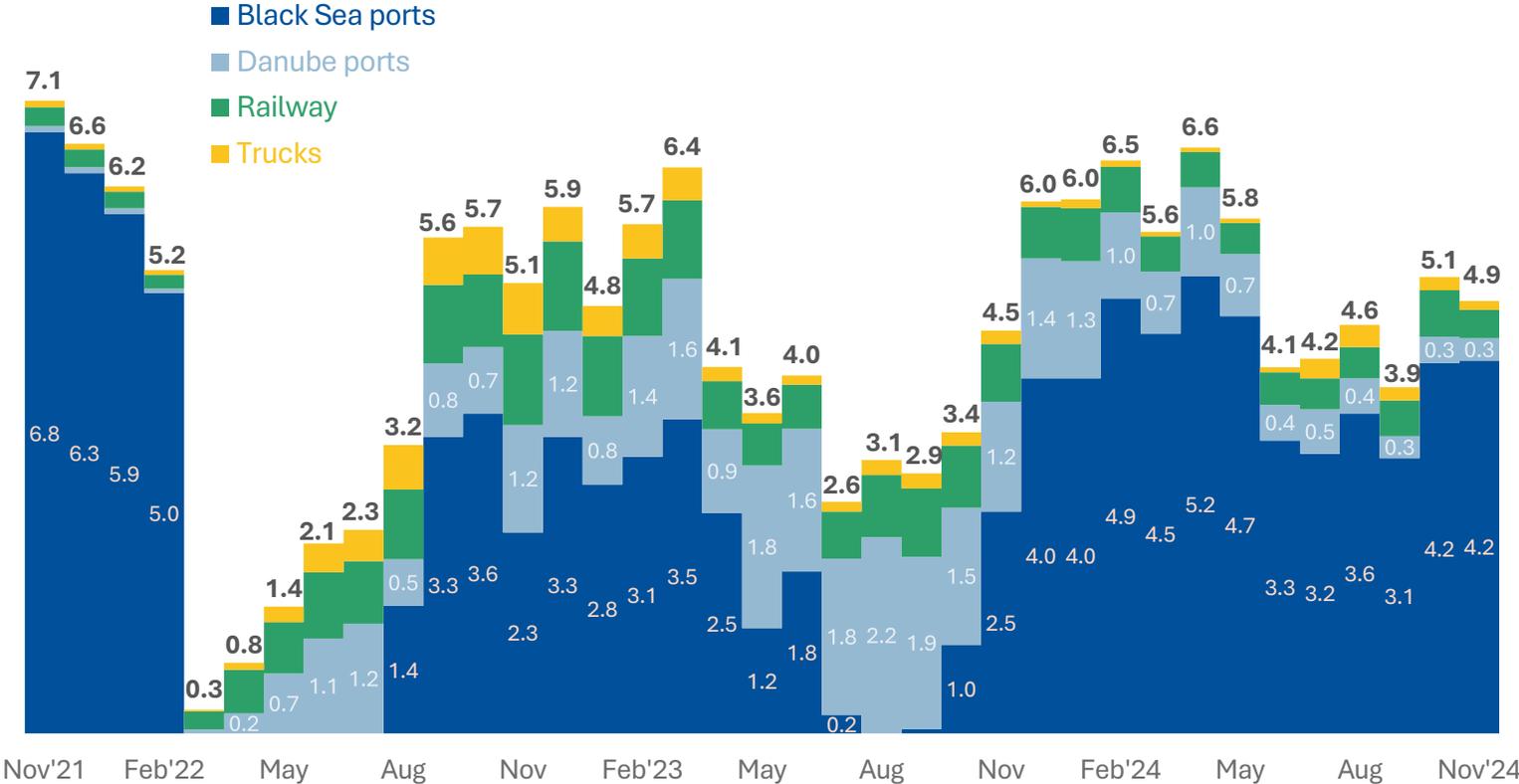


Source: ENTSO-E

SECTORAL ANALYSIS

The share of seaports in agri exports reached 86%, a new wartime high

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



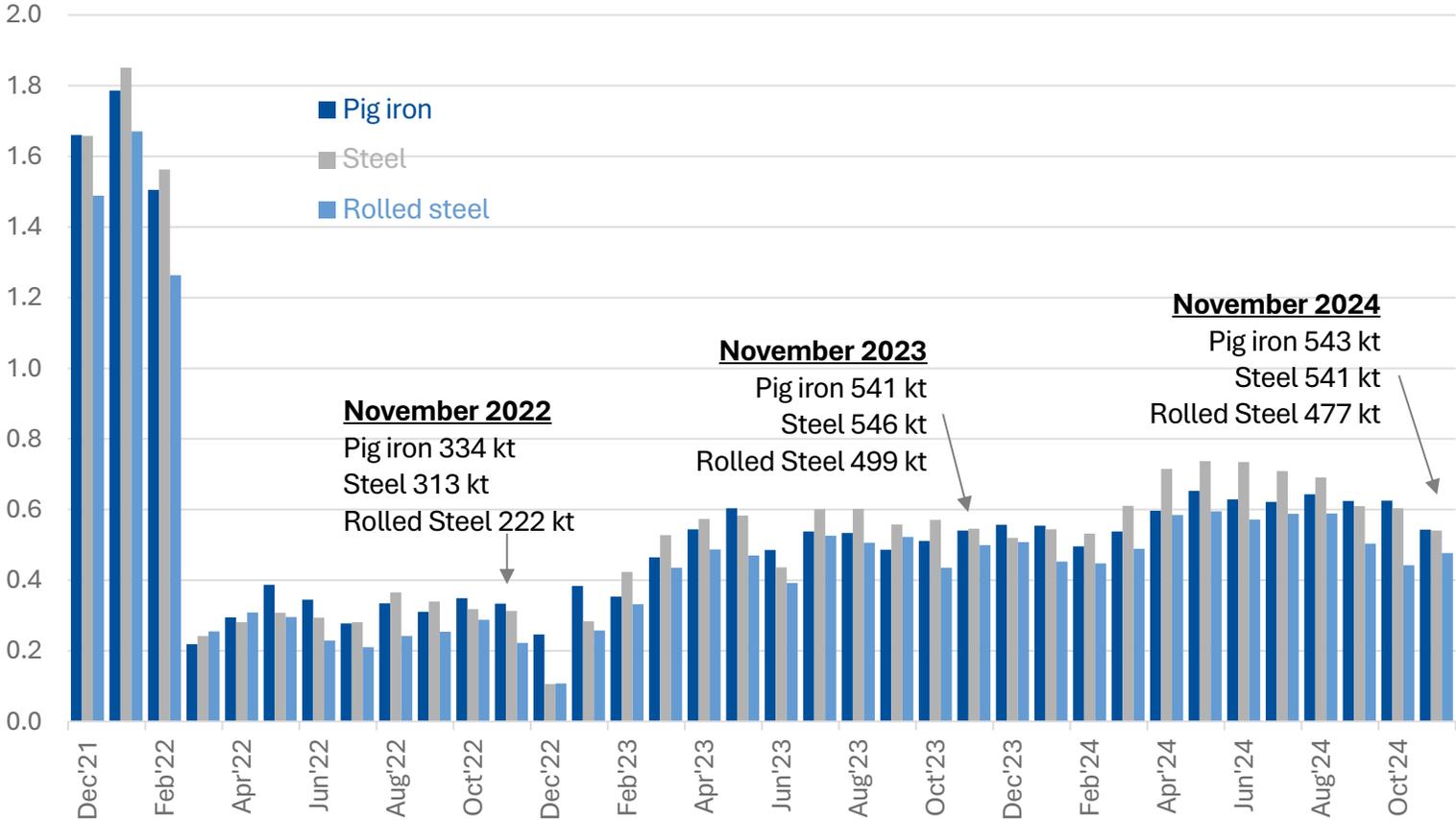
- In October, grain and oilseeds exports declined by 5% m-o-m to 4.9 mt.
- In 11M2024, agri exports reached 57.4 mt, 27% up y-o-y.
- The share of seaports in agricultural exports reached 86%, a record high since the beginning of the full-scale Russian invasion.
- Ukrainian grain exports in 2024/2025 reached 18.9 mt as of 6 December, up 37% y-o-y. The most important export crops are wheat (9.1 mt), corn (7.6 mt), and barley (1.9 mt).
- In November, another 25 000 ha were cleared of mines, bringing the total to over 255 000 ha since the beginning of the year. In total, 69 demining operators have been certified in Ukraine, and 58 more are in the process of certification.

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

IRON & STEEL SECTOR OVERVIEW

Steel production in Ukraine declines for the sixth month in a row

Ukraine ferrous production by main categories, mt



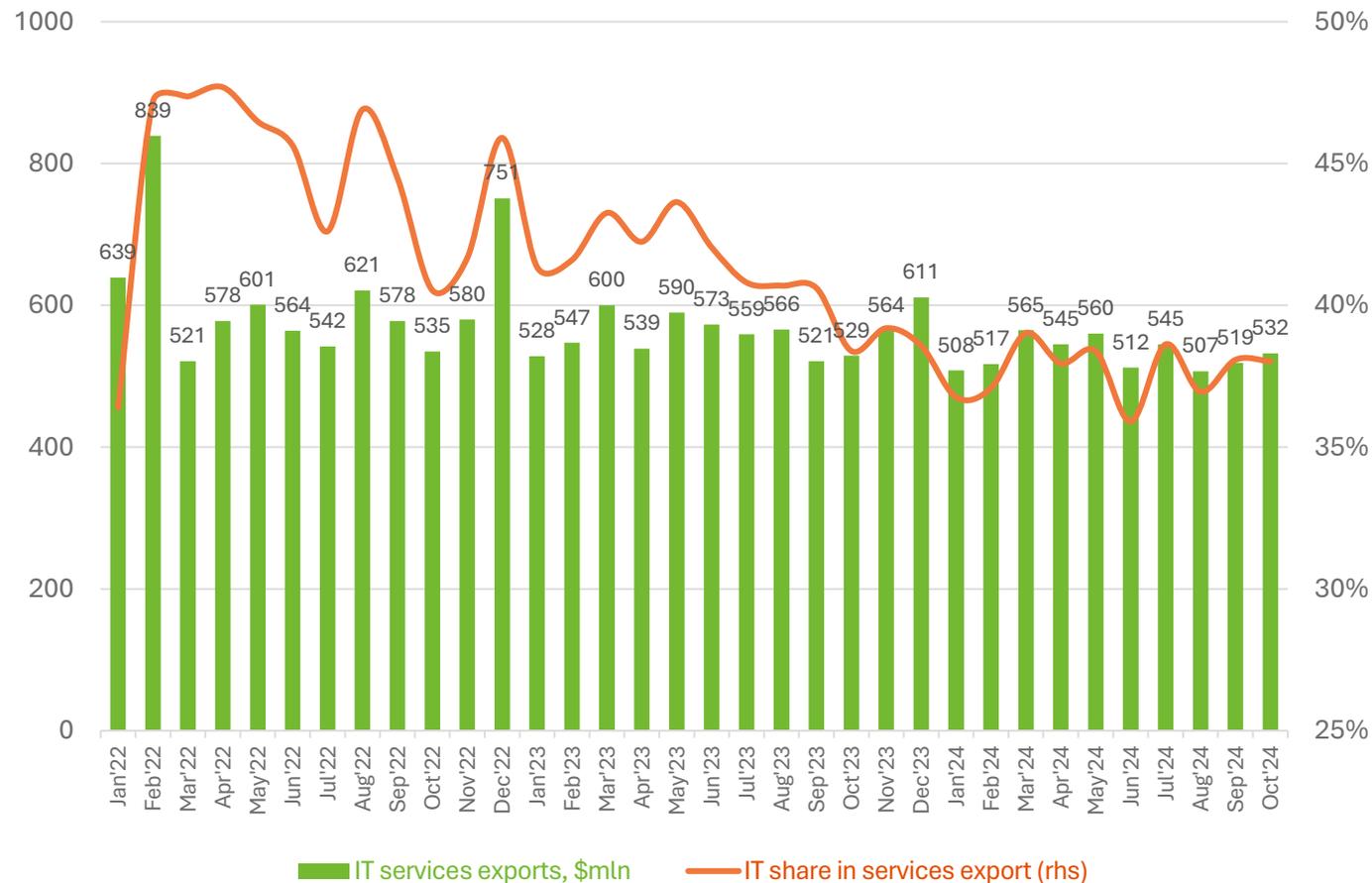
Source: Ukrmetallurgprom

- **Steel production declined for the sixth month in a row in November**, down 10% to 541 kt. Pig iron production fell by 13% to 556 kt. At the same time, rolled steel production increased by 8% to 477 kt.
- **In 11m2024, production of the main types of steel products increased by 18-23%**, with 6.52 mt of pig iron. 7.03 mt of steel and 5.74 mt of rolled products produced.
- **In January-October 2024, Ukraine exported 1.67 mt of semi-finished steel products (+62% y-o-y)** for a total of \$828 mln. Half of the exports went to Bulgaria and Egypt.
- **Metinvest and the Italian government signed a declaration on the construction of a steel plant in Piombino.** The construction cost is estimated at €2.5 bn, with a planned capacity of 2.7 mt of hot-rolled coils per year.

SECTORAL ANALYSIS

IT exports rebounds in autumn after reaching a wartime low in August

IT exports per month, \$ m



- **Exports of IT services in October increased by 2.5% m-o-m** after the wartime minimum in August and reached \$532m.
- **IT exports in 10M2024 reached \$5.3 bn**, 4% down y-o-y.
- **The number of IT vacancies** on the leading portal DOU increased by 31% to 59 600 in 2024. The greatest demand from companies is for employees with no work experience or up to 1 year of experience. Genesis tops the list of hiring companies with 1163 vacancies.
- **Fewer IT workers plan to change jobs** within a year (17%)
- **15% of IT workers plan to go abroad** in the near future or as soon as the borders are opened.

Sources: NBU, CES calculations

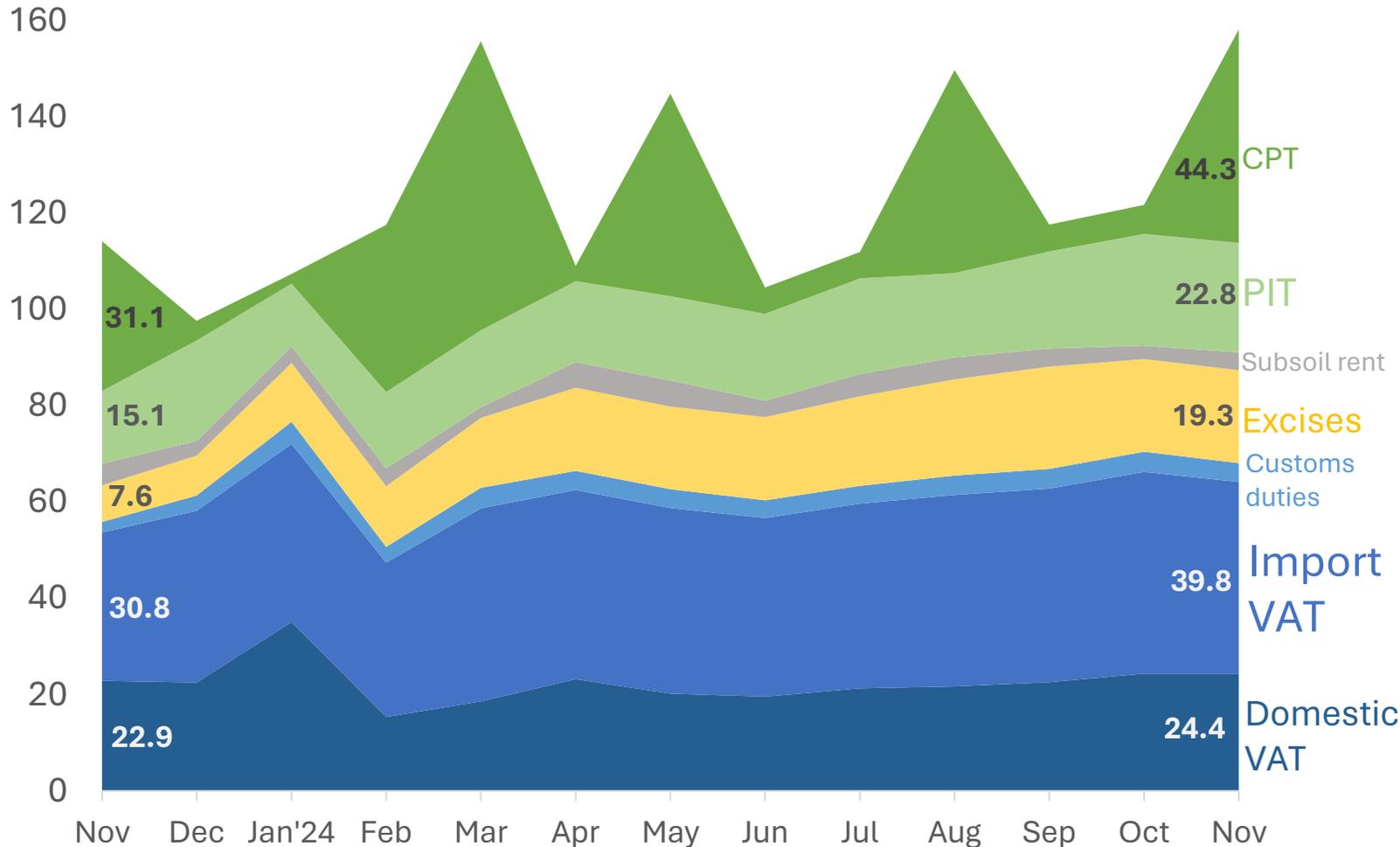


FISCAL SECTOR

FISCAL SECTOR

Record high revenues, but consumption taxes growth paused

State budget tax revenues. UAH bn



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

November **tax revenues of the state budget reached UAH 158.2 bn, adding 38.5% y-o-y.**

The consumption taxes grew by 41% vs November 2023, but the 4-month growth trend has paused.

We observe significant growth of VAT refunds throughout the year, with the last two monthly refunds exceeding UAH 15 bn (+50% y-o-y).

Another concern is the continued underperformance of the Customs Service's revenue plan (87% in October and 79% in November).

The **president signed the tax increase package.** MPs introduced amendments to the Tax Code that would shift the enactment date of the military tax for PEs to Jan 1st, 2025.

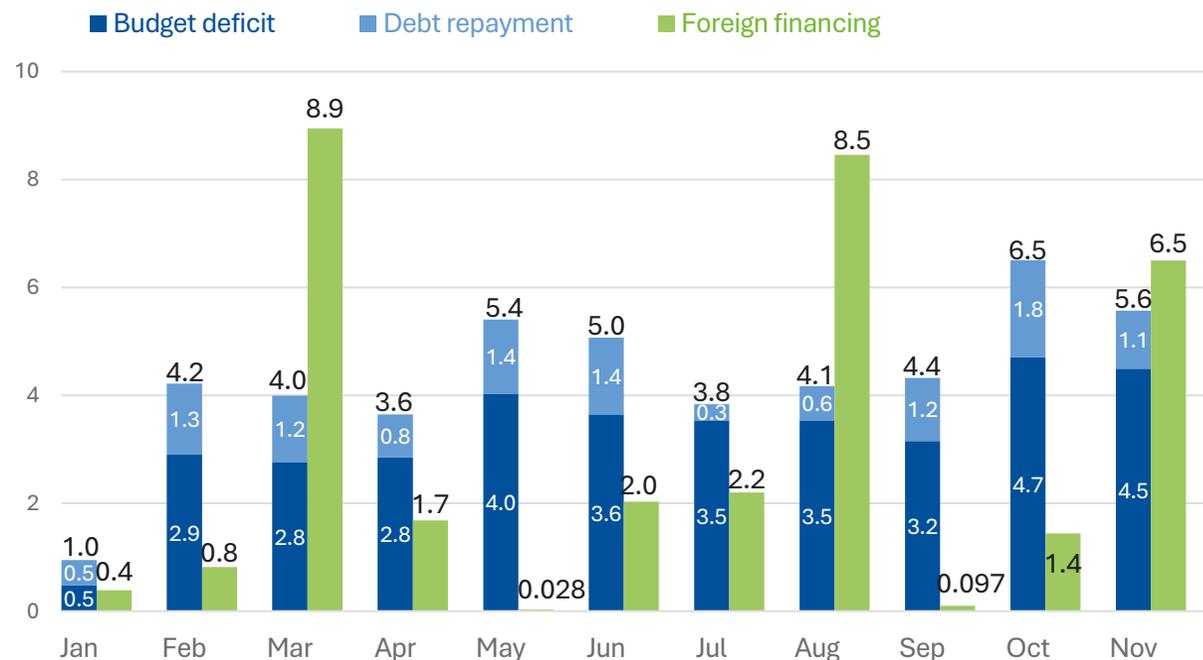
FISCAL SECTOR

In November, Ukraine received \$6.5 bn of foreign budgetary assistance

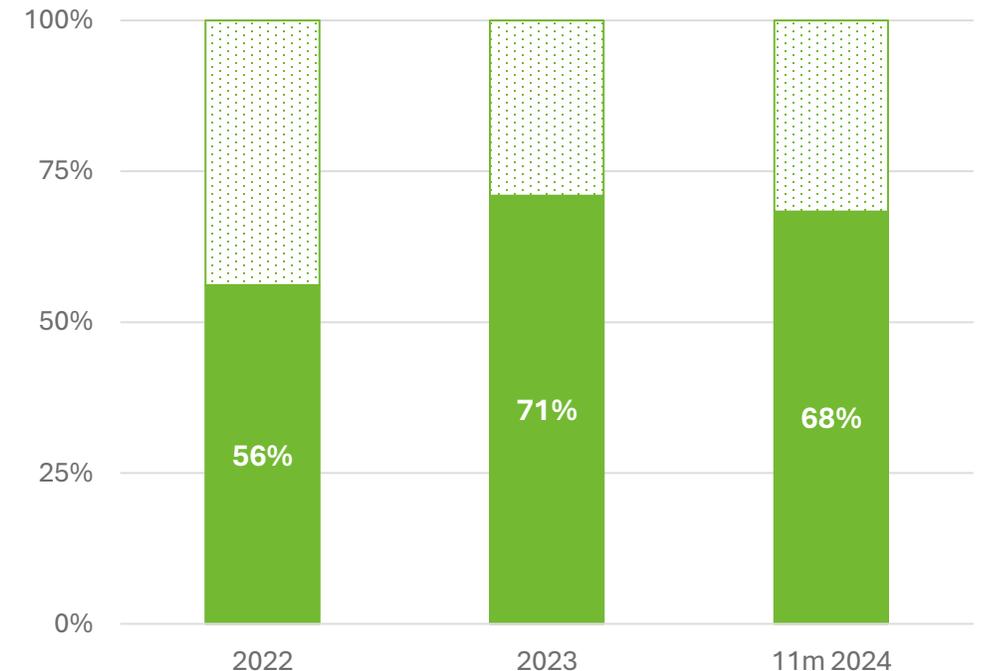
In November, foreign budgetary assistance fully covered the budget deficit and debt repayment needs. Ukraine received \$4.8 bn loan from the World Bank, \$1.35 grant from the U.S., \$235 m loan from Japan, \$100 m loan from South Korea (for the first time during the full-scale war), and EUR 10.8 grant from Norway.

Foreign aid covered 68% of the additional needs of the state budget in 11 months of 2024. While foreign financing was not enough to fully cover the financing needs, this was expected. Domestic bonds are the main source of covering the gap.

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



State budget financial needs coverage by foreign financing, %



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



BUDGET 2025

BUDGET 2025 IS THE FOURTH WAR BUDGET

- **Budget 2025 is the fourth war budget** and the first within the framework of medium-term budget planning (Budget Declaration 2025-2027);
- **Budget 2025 is balanced and conservative;**
- **Active hostilities are expected to last throughout 2025;**
- **More than half of all expenditures towards defence;**
- **Social standards are frozen;**
- **Fiscal consolidation: higher taxes and fees;**
- **Dependence on foreign support is the main fiscal risk;**

Indicator, \$ bn	2022 fact	2023 fact	2024 plan	2025 plan
<u>I. Macro</u>				
GDP	162	179	184	188
GDP, % real change	-28.8	5.3	3.5	2.7
<u>II. State budget</u>				
Revenues	55	73	47	52
Incl. international aid	20	32	0	2
Expenditures	84	110	93	88
<u>III. General government sector</u>				
Revenues	81	98	77	76
Incl. social funds	13	13	15	13
Expenditures	107	134	124	112

Sources: Ministry of Finance, Laws on State Budget 2024 and 2025, Pension Fund of Ukraine

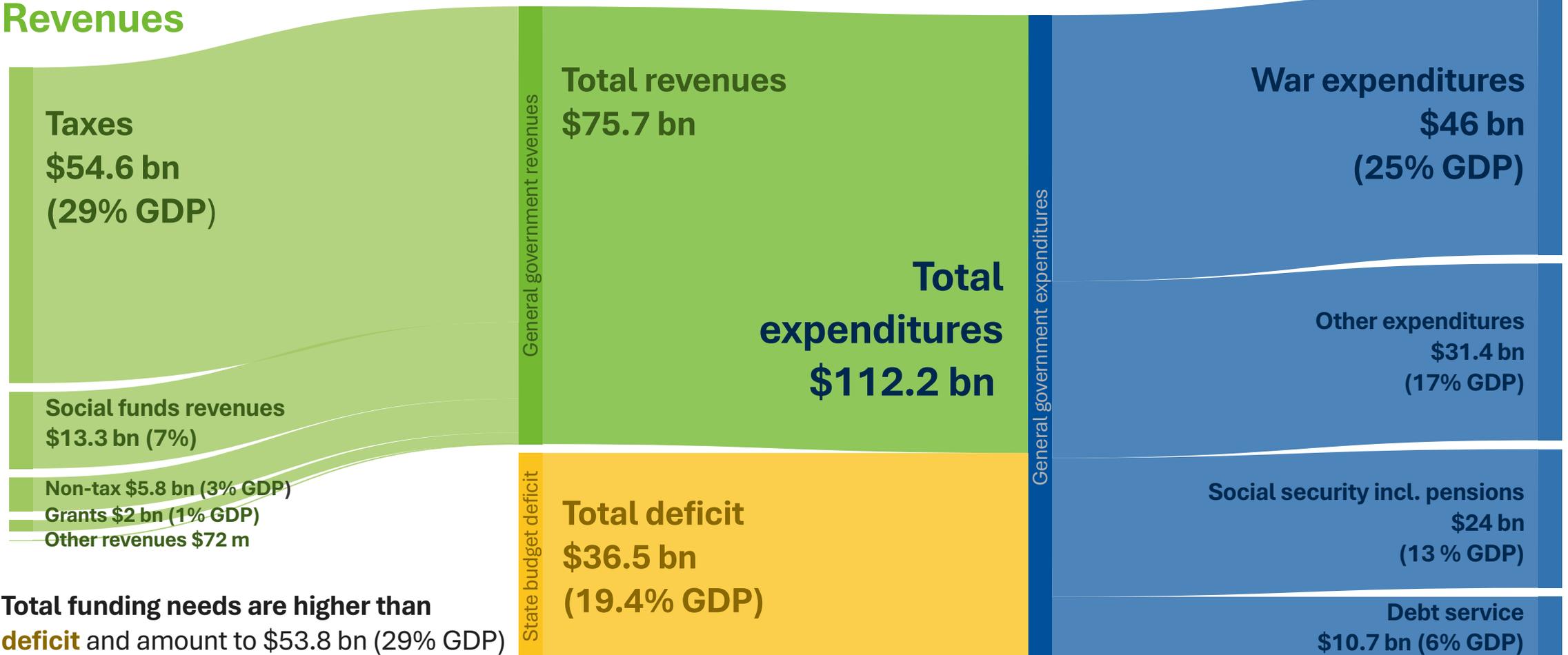
EXPENDITURES ARE MUCH LARGER THAN REVENUES

Budget of general government sector

Total debt: \$191.5 bn (**101.8%** GDP)

Expenditures

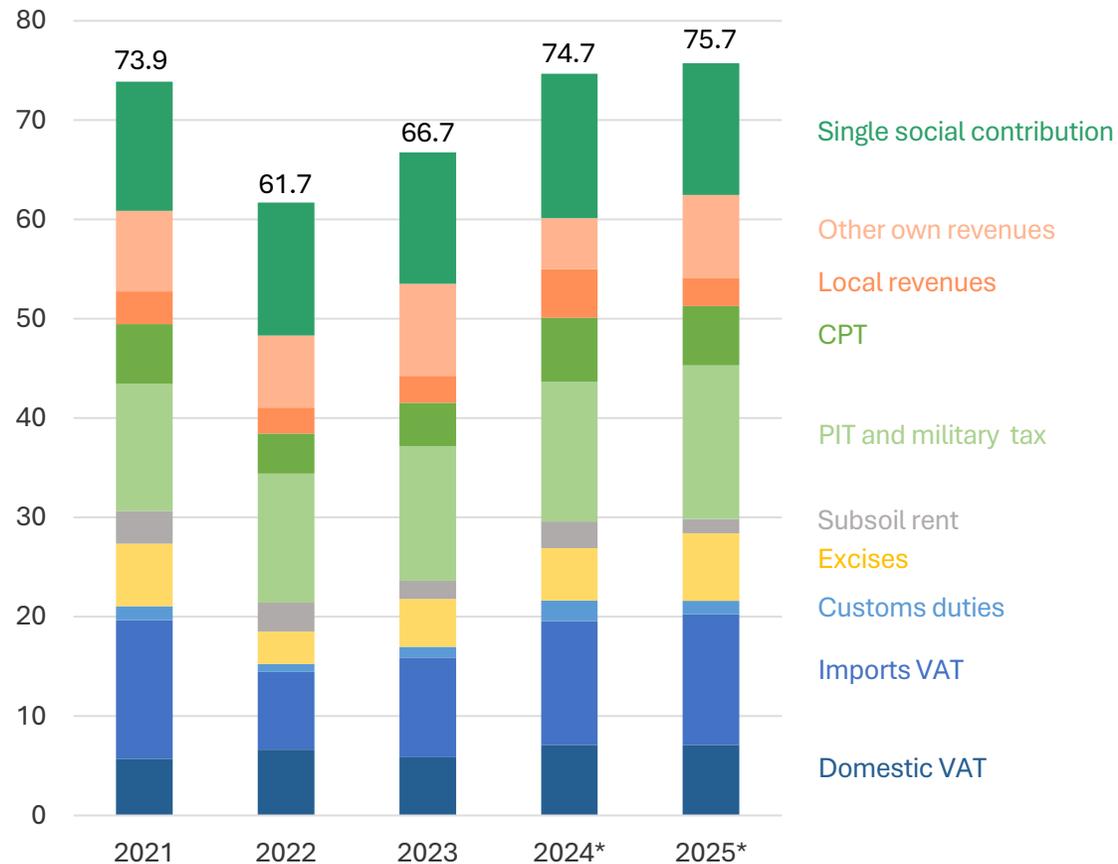
Revenues



Total funding needs are higher than **deficit** and amount to \$53.8 bn (29% GDP)

REVENUES INCREASE BUT ARE STILL NOT ENOUGH

General government sector own revenues, \$ bn



- Nominal revenues increase more than inflation (9.5%) due to higher tax rates;
- Tax collection is higher than in 2021 - 29% of GDP compared to 26.7% of GDP in 2021;
- The most dynamic growth is in personal income tax and military tax compared to pre-war period in 2021;
- Own general government sector revenues cover only **66%** of total expenditures;

Tax collection and the fighting against shadow and corruption need to be improved;

Total own revenues — UAH 3.4 trillion (\$73.7 bn, 40.3% GDP)

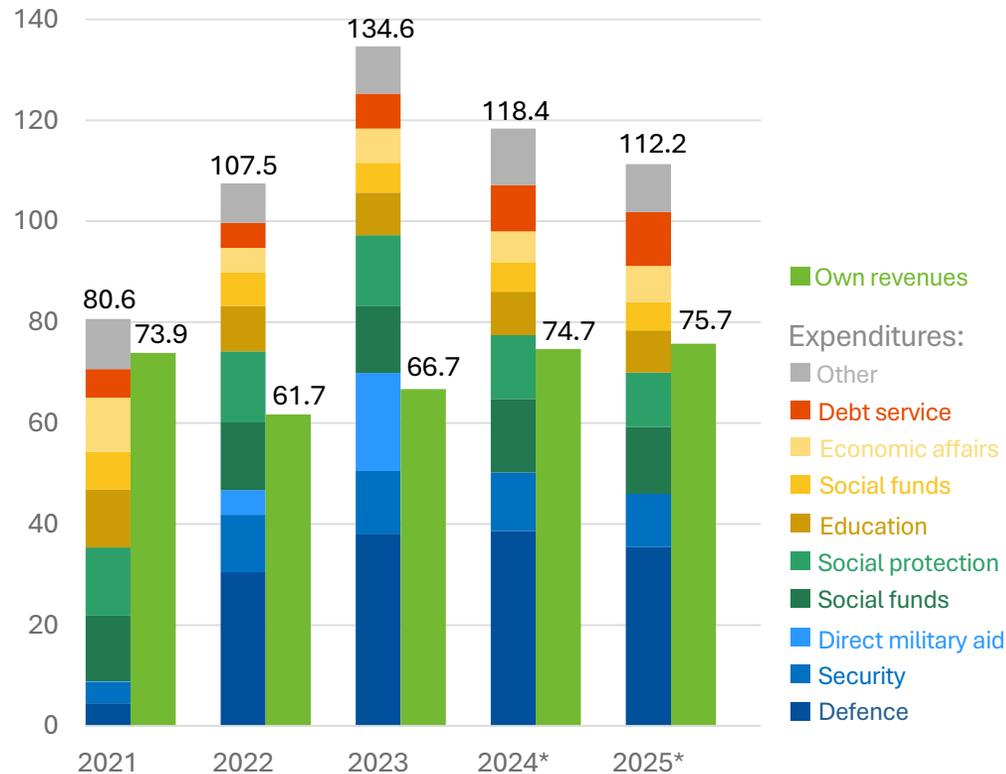
*plan

Sources: Ministry of Finance, Laws on State Budget 2024 and 2025, Pension Fund of Ukraine

EXPENDITURES REMAIN HIGH

Efficient use of resources is needed

Expenditures of general government sector and own revenues, \$ bn



*plan

Sources: Ministry of Finance. Law on State Budget 2025. Pension Fund of Ukraine

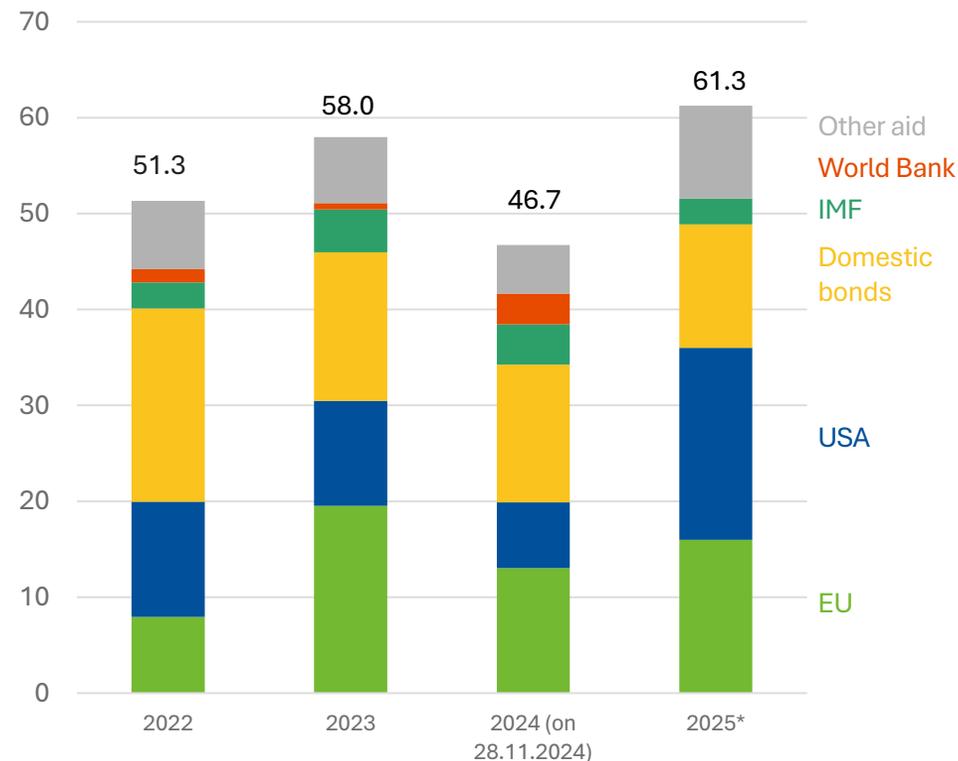
- Financing of the war amounts to half of all expenditures or quarter of GDP.
- In 2025, war expenses will remain almost unchanged at +1% by 2024 – the government envisions hostilities until the end of 2025.
- Government cuts social expenditures on pensions from state budget to decrease deficit of the Pension fund
- Debt service expenditures are planned to increase by +29% by 2024. amounting to up to \$10.7 billion

Total expenditures — UAH 5 trillion (\$112 bn, 59.6% GDP)

FINANCING ASSISTANCE COVERS THE BUDGET GAP IN 2025

- **Total financial need in 2025 is \$53.8 bn**, of which foreign financing need is \$38.4 bn.
- **Need will be covered** by \$38.8 bn credits, \$2 bn grant from international partners and \$12.9 bn of government bonds.

Additional financing of Ukraine's state budget, \$ bn



Financing needs and debt

Indicator	2022		2023		2024		2025	
	\$ bn	% GDP	\$ bn	% GDP	\$ bn	% GDP	\$ bn	% GDP
Public and publicly guaranteed debt	126.0	77.8%	150.9	84.4%	201.1	109.4%	191.5	101.8%
Total funding needs, including:	61.6	38.0%	79.5	44.5%	55.9	30.4%	53.8	28.6%
Budget deficit	28.3	17.5%	36.4	20.4%	40.4	22.0%	36.5	19.4%
Budget needs covered by grants and direct aid	19.4	12.0%	31.2	17.4%	0.2	0.1%	1.9	1.0%
Domestic debt repayment	12.4	7.7%	10.1	5.7%	10.9	5.9%	12.5	6.6%
External debt repayment	1.4	0.9%	1.8	1.0%	4.5	2.4%	2.9	1.5%

*2025 - preliminary estimates. Sources: Ministry of Finance, Laws on State Budget 2024 and 2025, Pension Fund of Ukraine



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THANK YOU.

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