CENTRE FOR ECONOMIC STRATEGY

GET German Economic Team

Date: 13 February 2025
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February Economic Review

Special topic: Can Ukraine rely on its financial reserves to stabilize the front?

EXECUTIVE SUMMARY

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- **Monetary, FX, and Banking sector:** Key rate up to 14.5%, inflation hit 12.9%. FX reserves down to $43 bn, but hryvnia strengthened. Deposit growth & rise in UAH loans.

- **Sectoral analysis:** Power system stable despite shelling and cold weather, but the Rada takes a controversial step in purchasing Russian nuclear power plant reactors. Steel production hit a 5-month high; meanwhile, the industry could be impacted by U.S. protectionist measures. Grain & oilseed exports hit lowest level since 2023, and corn made up two-thirds of grain and oilseed exports by tonnage in January. Agricultural exports expected to decline by 26% in 2024/25: this is a result of low level of soil moisture, especially in Eastern regions. IT services exports in 2024 fell by 5% to $6.45 bn. December 2024 showed the highest monthly IT exports in 2023-2024.

- **Fiscal sector:** Revenues in January slightly outpace CPI y-o-y. VAT anomaly repeats, excise losses accumulate. State revenues cover only war costs. Defence and security expenses exceed 65% of the state spending.

- **Special topic:** ERA financing is a gamechanger for 2025. Ukraine will receive $50 bn backed by Russian frozen assets. Foreign financing in 2025 surpasses expected needs: can available resources be redirected to strengthen defense? The ERA funds must be used wisely, and a safety margin must be maintained for 2026-2027.

See our report below for further details.

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MONETARY, FX, AND BANKING SECTORS

KEY RATE UP TO 14.5%, INFLATION HIT 12.9%

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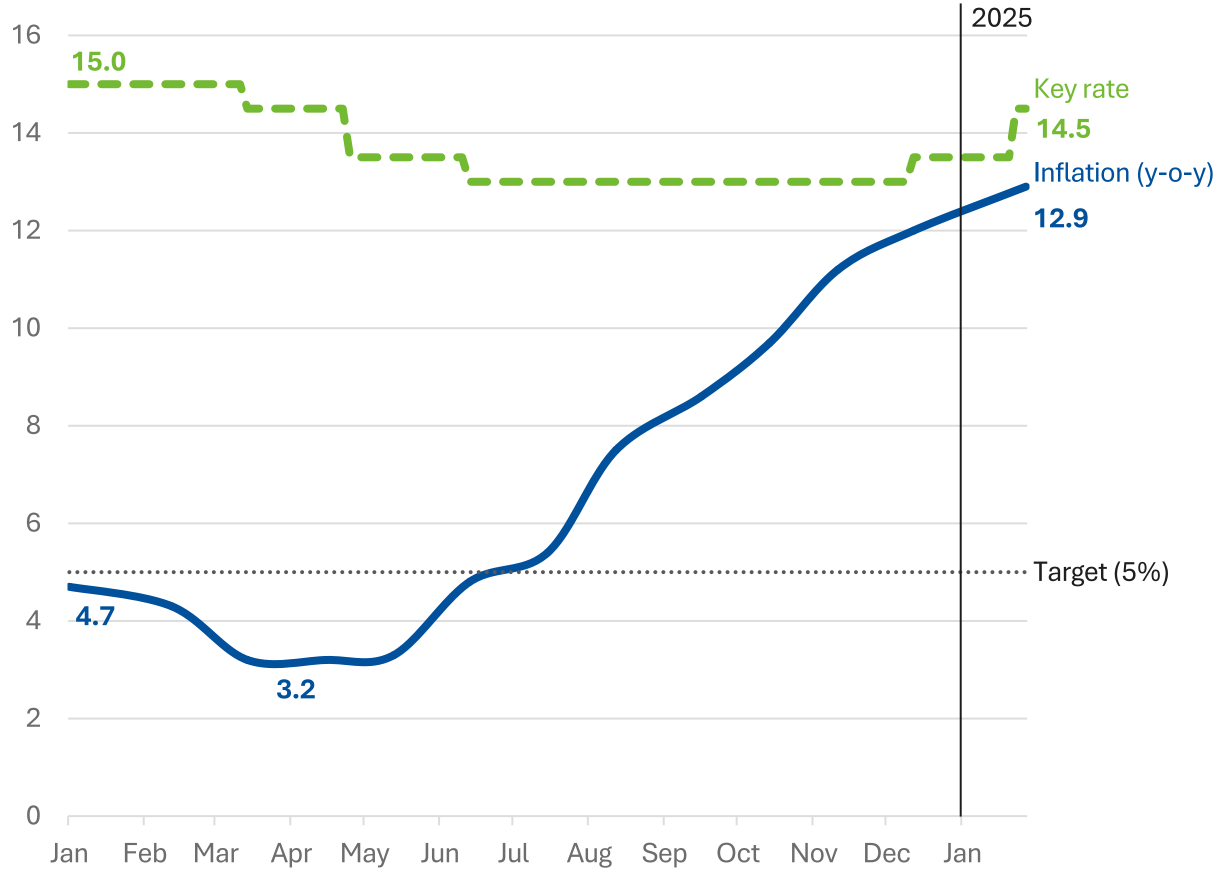
Inflation (y-o-y), inflation target, and NBU key rate, %



Sources: NBU, State Statistics Service, UIRD

- **The NBU raised its key policy rate to 14.5%** to stabilize the foreign exchange market, curb inflation expectations, reverse the current trend, and gradually achieve the 5% target.

- **The full-scale war remains the key risk to inflation:**
  - Possible tax hikes, increasing price pressures
  - Further damage to energy infrastructure, limiting economic activity and raising costs
  - Worsening migration trends and growing labour shortages

- **In January 2025, inflation accelerated to 12.9% y-o-y** (1.2% m-o-m), driven primarily by a sharper increase in administered prices and market service costs. This was due to rising production expenses, higher energy and labor costs, as well as tax and regulatory changes.

RESERVES DOWN TO $43 BN, HRYVNIA STRENGTHENED

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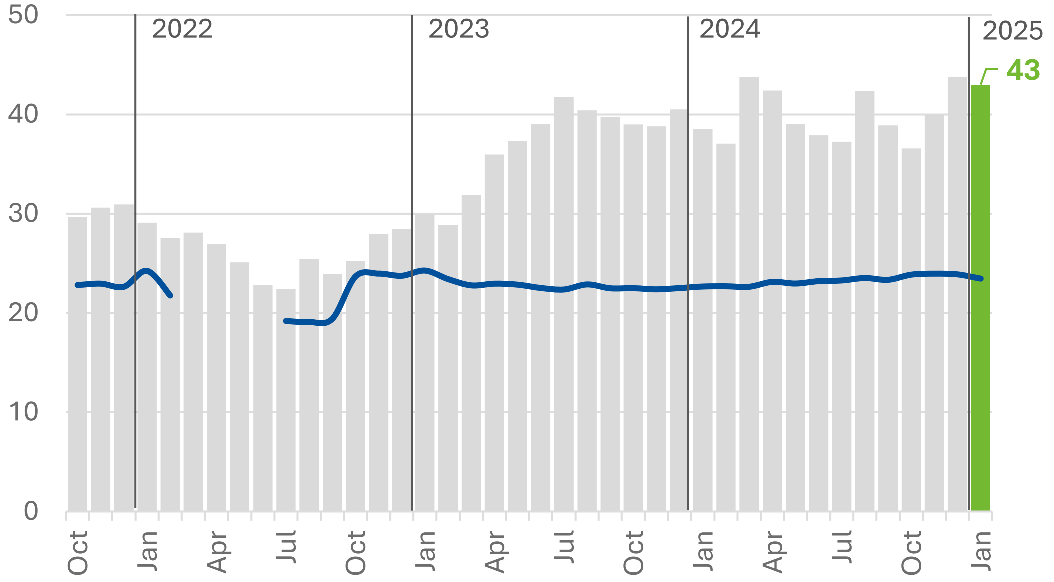
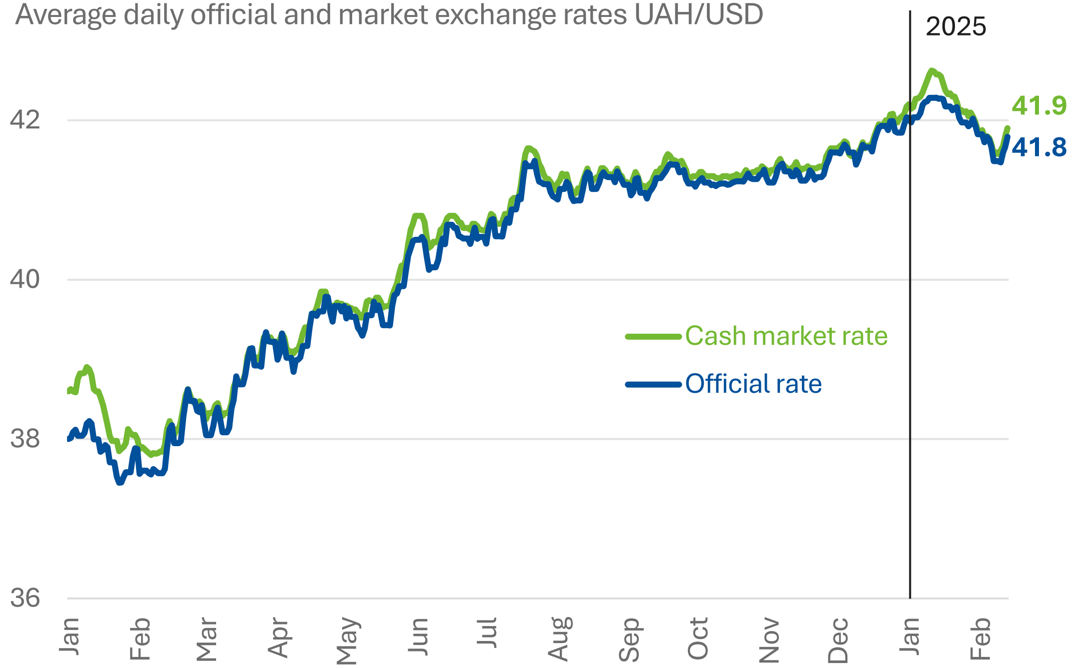
In January 2025, international reserves declined by 1.8% to $43 bn, covering 5.3 months of imports — well above the minimum required 3 months. This dynamic was driven by low level of international aid which barely compensated the debt servicing and NBU FX interventions.

In early 2025, hryvnia strengthened due to increased demand from the agricultural sector ahead of the planting season, **and government bond repayments** by the MoF in mid-January. The NBU also intervened with $3.7 billion to manage exchange rate volatility.

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



Average daily official and market exchange rates UAH/USD



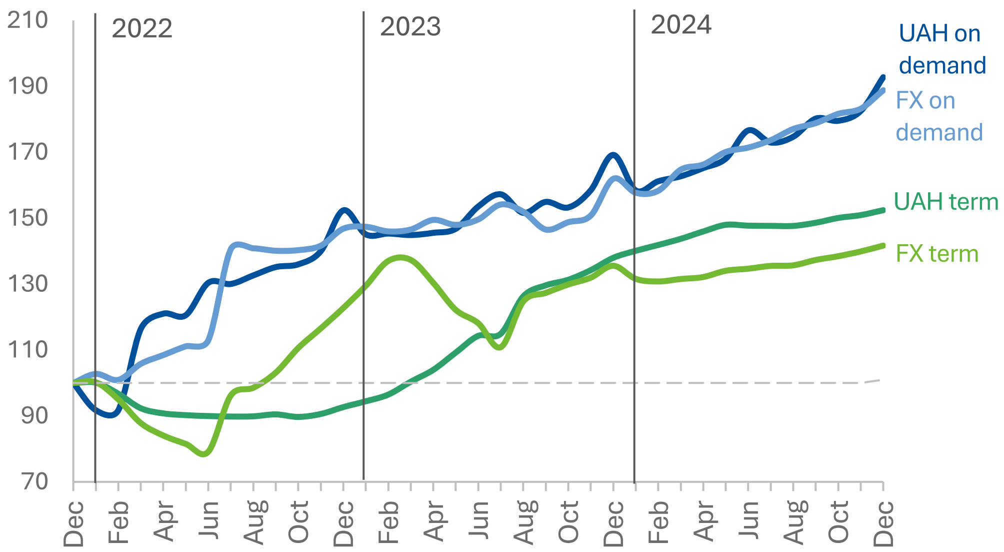
Source: NBU. No future imports data for March-June 2022

Source: NBU and minfin.com.ua

DEPOSIT GROWTH & RISE IN UAH LOANS

In 2024, household deposits saw steady growth. UAH on-demand deposits increased the most, driven by higher incomes and attractive interest rates, while UAH term deposits grew at a slower pace. FX deposits also rose, with on-demand deposits growing faster than term deposits, supported by the depreciation of the hryvnia.

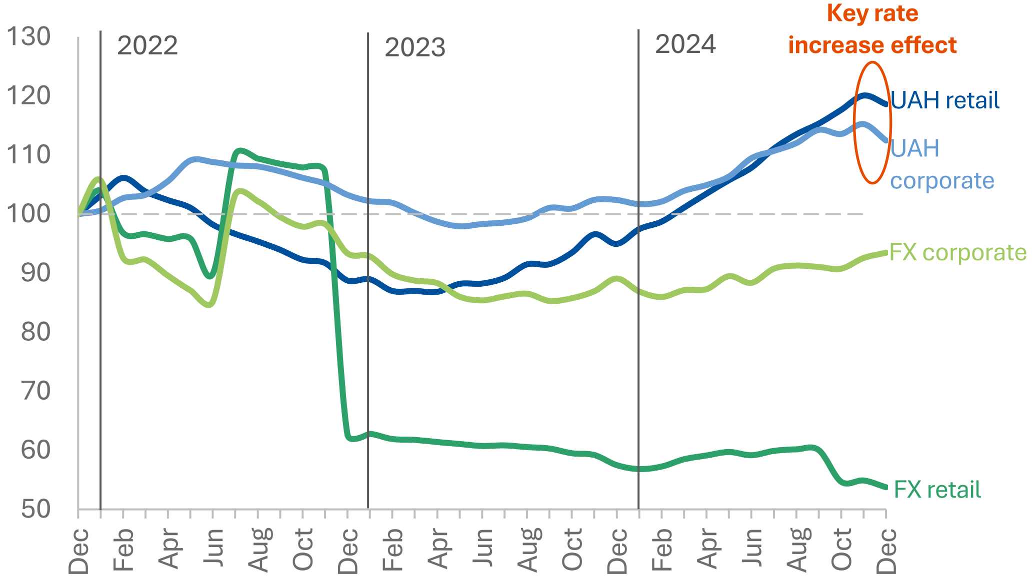
Household deposits by currency and maturity, index, December 2021 = 100



Source: NBU

Throughout 2024, corporate loan demand increased, driving growth in UAH corporate loans, while FX corporate loans remained stable. UAH retail loans also rose, reflecting higher consumer borrowing, whereas FX retail loans declined.

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



Source: NBU

SECTORAL ANALYSIS

POWER SYSTEM STABLE DESPITE SHELLING AND COLD WEATHER

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But the Rada takes a controversial step in purchasing Russian reactors for NPP

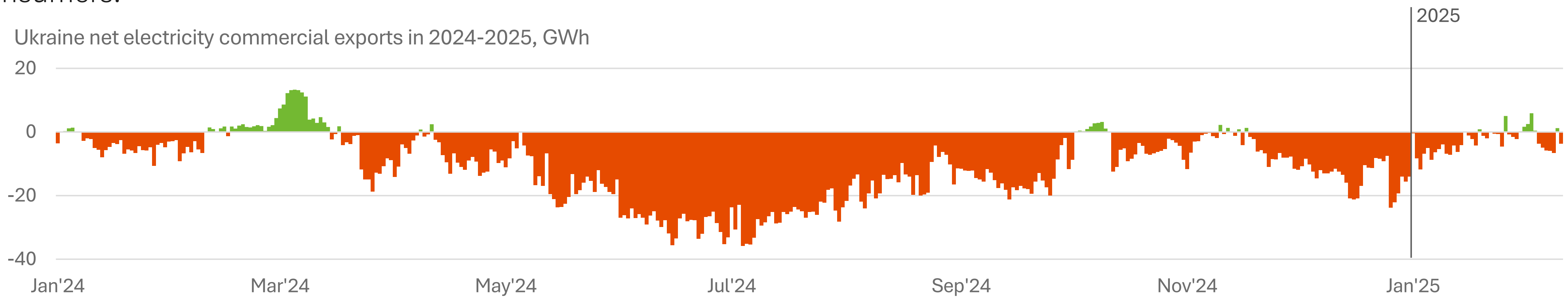
In January, net electricity imports decreased 4.3 times m-o-m to 98 GWh, down from 426 GWh in December. This was due to commercial imports of 183 GWh and commercial exports of 85 GWh. For the first time in the past 15 months, Ukraine exported electricity every day of the calendar month.

In early February, another Russian attack targeted Ukraine's energy infrastructure, leaving 38 settlements without power. The following week, electricity was restored to nearly 200,000 consumers in Donetsk Oblast. Temporary restrictions on electricity consumption were introduced for industrial consumers.

On 11 February, the Rada supported a bill that allows Energoatom to buy Russian-made reactors from Bulgaria to complete the Khmelnytskyi NPP. The estimated price of such a deal could be €600 m.

The bill carries significant corruption risks and deepens the crisis of Ukrainian parliamentarism: instead of being voted on in the first reading, another bill's text was replaced with the required version. Completion of the power plant is a long-term issue, not supported by the US and EU.

Ukraine net electricity commercial exports in 2024-2025, GWh



Source: ENTSO-E

STEEL PRODUCTION HIT A 5-MONTH HIGH

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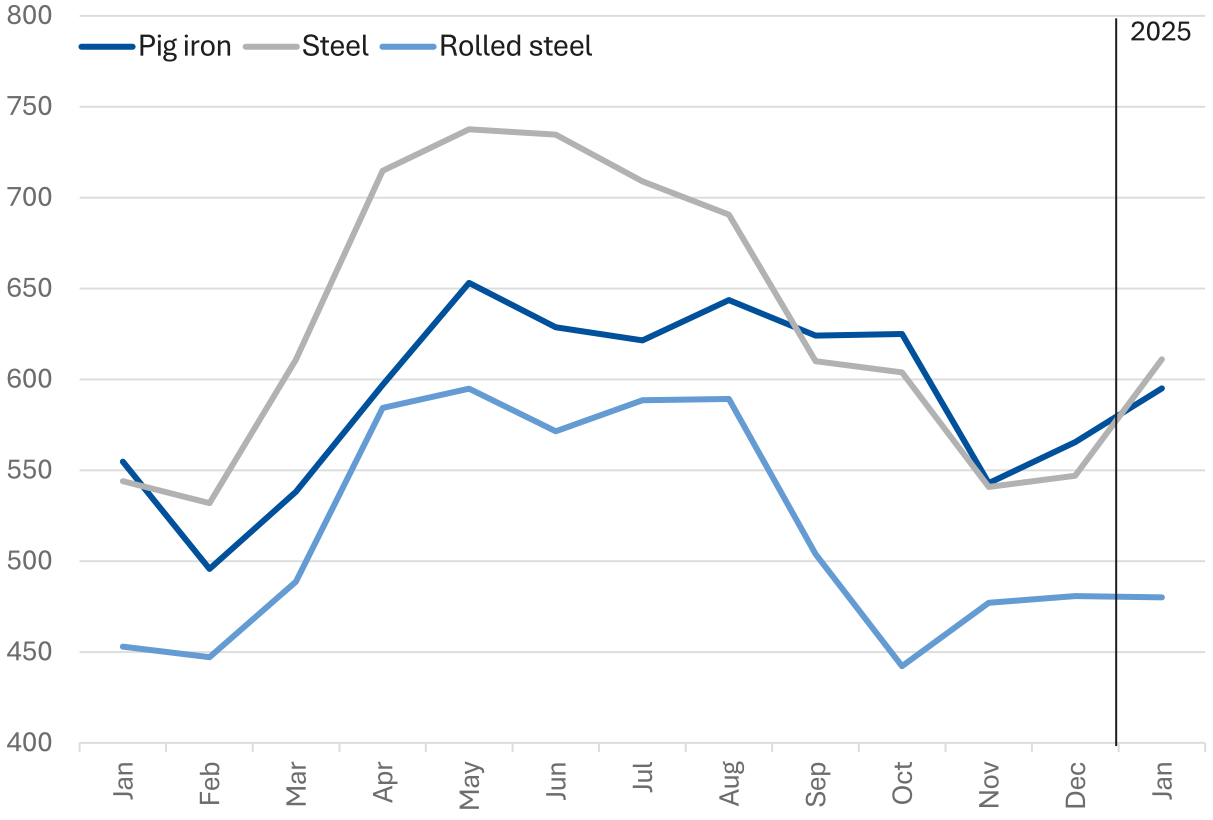
Meanwhile, the industry could be impacted by U.S. protectionist measures

Production of major iron & steel products, in thousands metric tonnes



Source: Ukrmetalurgprom

In January 2025, Ukraine increased steel production to a five-month maximum — 611 kt (+12% m-o-m);

Pig iron production in January increased by 5% to 595 kt, while rolled product output remained nearly unchanged at 480 kt;

On 10 February, U.S. President Donald Trump signed **a 25% import tax on steel and aluminium from all countries**. The new rates are expected to take effect on 12 March;

In 2024, iron and steel accounted for 58% of Ukraine's total exports to the U.S., totaling $503 million. The main exports were pig iron ($363 million) and steel pipes ($113 million).

U.S. Treasury Secretary Scott Bessent arrived in Ukraine on 12 February and met with President Volodymyr Zelenskyy. Following the meeting, Zelenskyy stated that the U.S. had presented Kyiv with a draft "partnership agreement" outlining investment in Ukraine's mineral resources in exchange for further aid.

GRAIN & OILSEED EXPORTS HIT LOWEST LEVEL SINCE 2023

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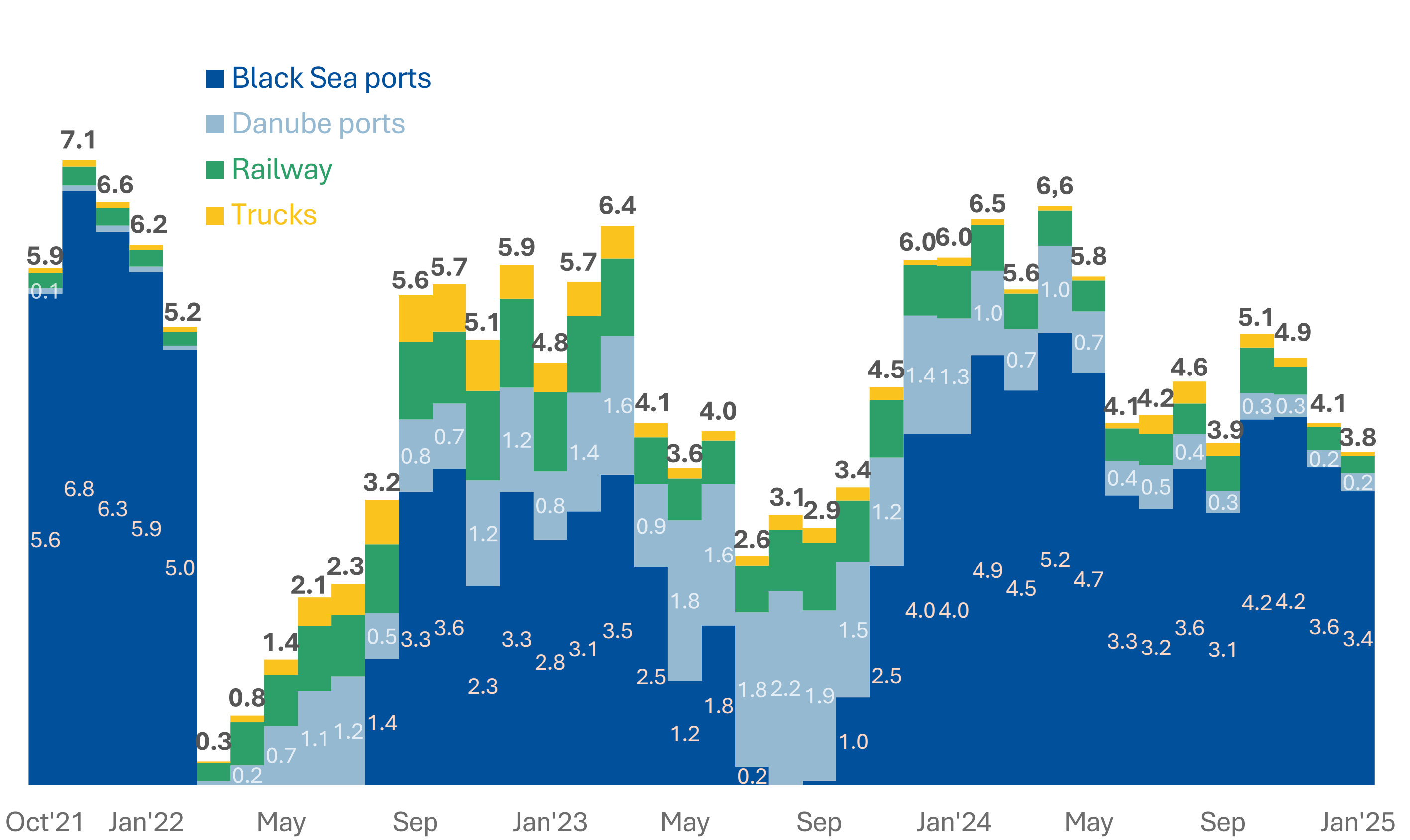
Corn made up two-thirds of grain and oilseed exports by tonnage in January

Exports of grain and oilseeds by transport and total, mt



Source: Dragon Capital estimate

In January 2025, grain and oilseed exports fell by 8% to 3.8 mt, marking a 15-month low, according to preliminary estimates.

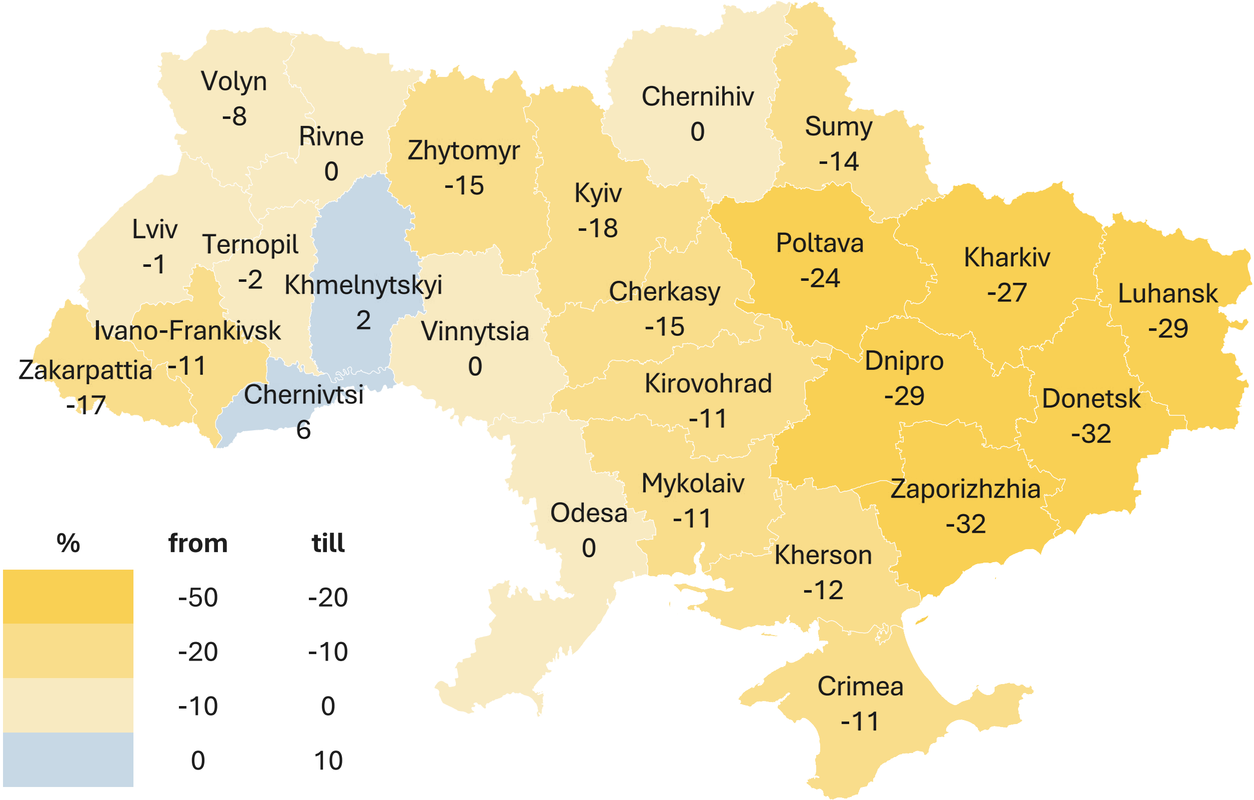
The main export commodities in January were corn ($521 m or 2.5 mt) and sunflower oil ($426 m or 378 kt).

In 2024, Ukraine imported agricultural and food products worth $7.8 billion, a 10% y-o-y increase. Imports from the EU rose by 9% to $4 bn. Since 2017, Poland has remained Ukraine's leading supplier of agricultural products, with imports reaching $925 m in 2024. Germany followed with $623 m, while imports from Turkey totaled $603 m. Fish and seafood accounted for the largest share of agricultural imports, totaling $929 m.

AGRICULTURAL EXPORTS EXPECTED TO DECLINE BY 26% IN 2024/25

This is a result of low level of soil moisture, especially in Eastern regions

Soil moisture deficit / surplus, %, CPC model



Ukraine has recorded its lowest soil moisture levels in seven years, with November–January precipitation at 80 mm, well below the 117 mm average. This poses a major concern for grain producers, especially in the east.

Ukraine's grain production and exports for 2024/25 are set to decline, according to the February FAS USDA report. Production is expected to drop 13%, exports 26%. Corn will see the largest fall, with output down 24% to 24.6 mt and exports plunging 33% to 19.6 mt. Wheat production will remain stable at 22.9 mt, but exports will drop 19% to 15 mt. Barley output and exports are projected to hold at 5.9 mt and 2.6 mt, respectively.

Source: NOAA/CPC, ASAP Agri

IT SERVICES EXPORTS IN 2024 FELL BY 5% TO $6.45 BN

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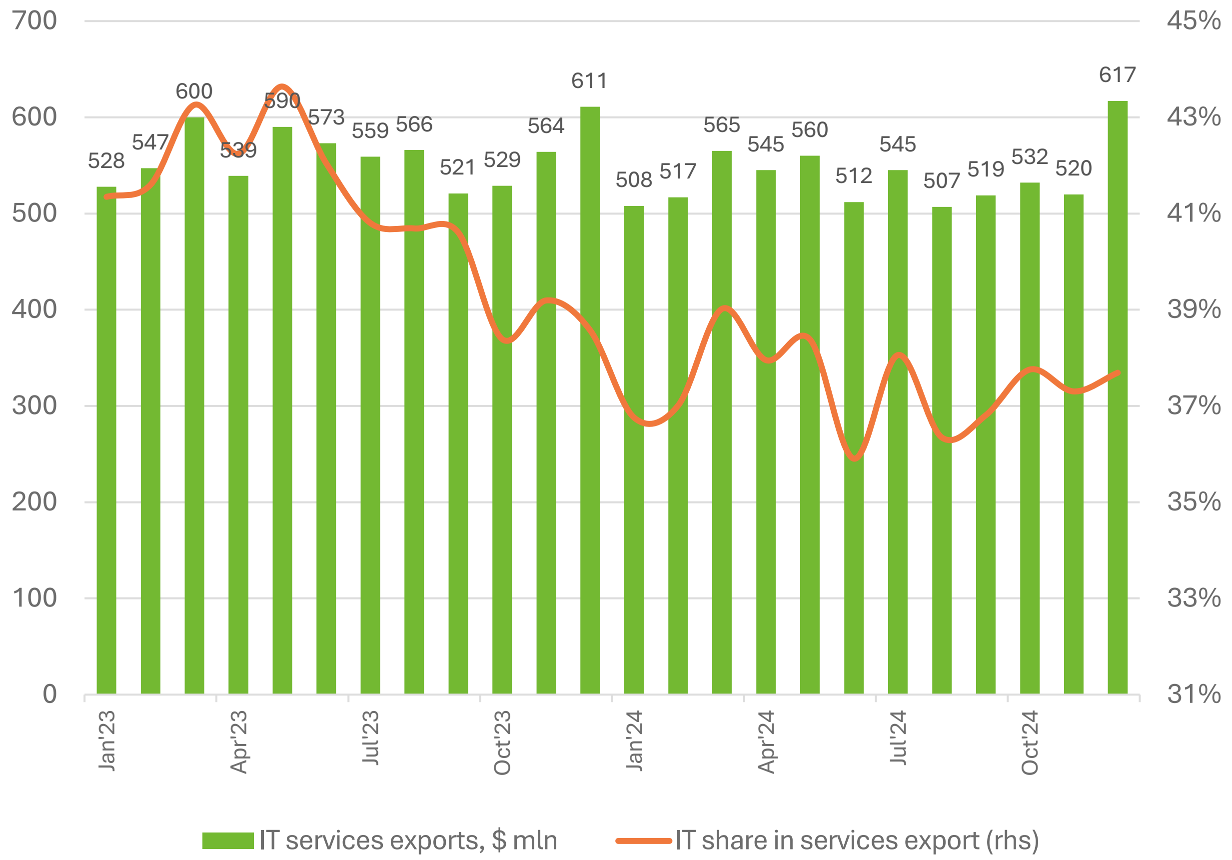
December 2024 showed the highest monthly IT exports in 2023-2024

IT services exports and its share in total services exports by month



- **In December, IT service exports saw seasonally driven growth,** reaching a two-year high of $617 m, up 19% month-on-month but only 1% higher than in December 2023.
- **In 2024, Ukraine's IT service exports fell by 5% to $6.45 bn, reaching a four-year low.**
- **The U.S. share of Ukraine's IT exports fell to 37%** in 2024, the lowest since 2017. The UK accounted for 9% of IT services, Malta 8%, while exports to Cyprus reached an all-time high of 6%.
- **Companies operating under the Diia.City special legal regime paid over UAH 18 bn in taxes** in 2024. The top five taxpayers were Monobank, Favbet Tech, SoftServe, Ukrainian Processing Centre, and EPAM Systems.

Sources: NBU, CES calculations

FISCAL SECTOR

REVENUE GROWTH SLOWS, SLIGHTLY OUTPACES CPI Y-O-Y

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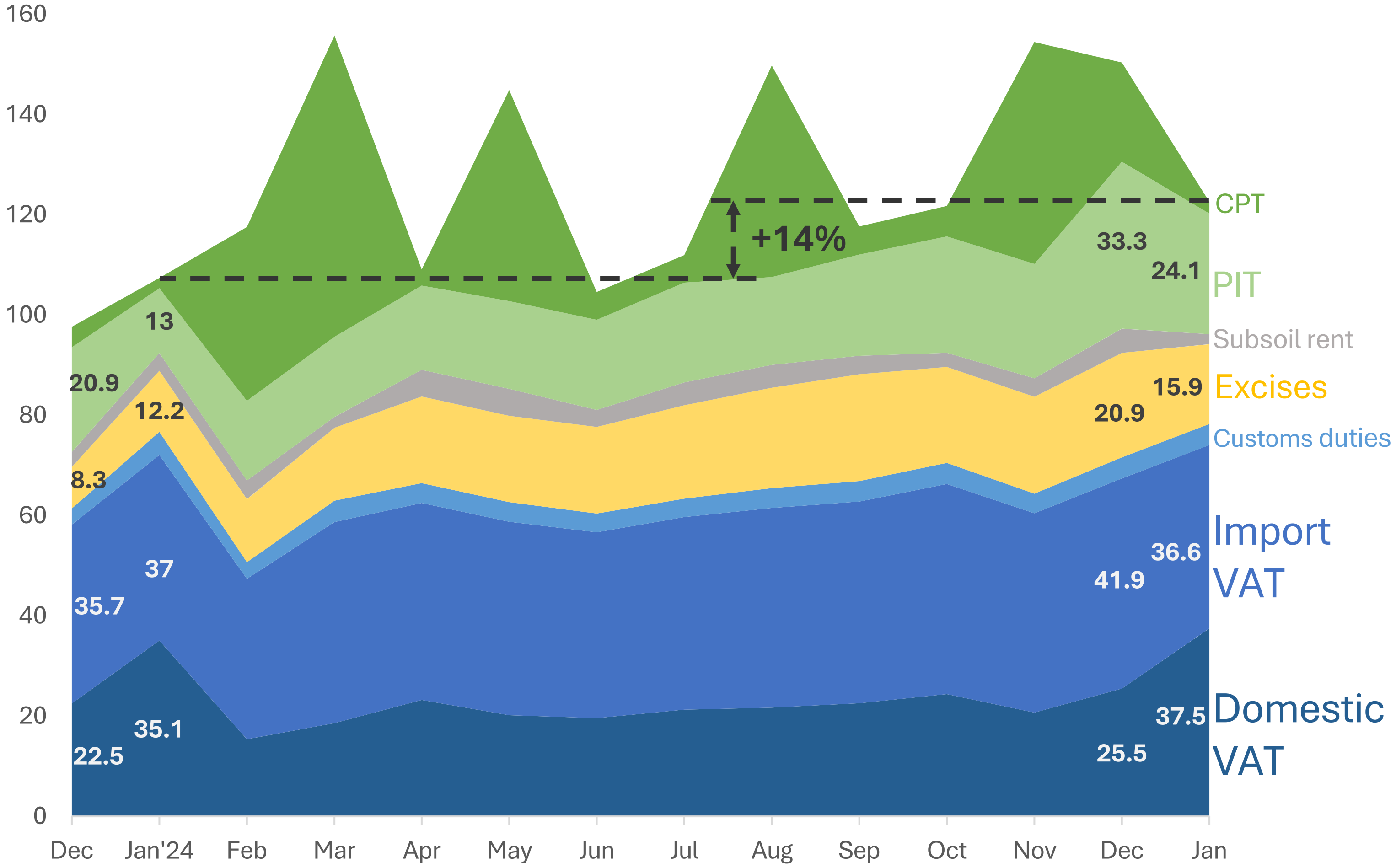
VAT anomaly repeats, excise losses accumulate

State general budget fund tax revenues, UAH bn



Source: Ministry of Finance. Note: based on the Treasury's preliminary budget data released by the MoF

The state budget's January tax revenues reached UAH 122.2 bn, driven by personal income tax (PIT), excises, and domestic VAT.

Gross domestic VAT added 18% y-o-y (6% in real terms), but VAT refunds increased by 58%, leading to **net domestic VAT revenue nominal growth of just 6%** (-6% adjusted for inflation)

For the first time since the onset of the invasion, domestic VAT exceeded import VAT revenues.

This is a one-off seasonal effect. We expect the domestic VAT revenues to drop in February and return to average levels since March.

The law on increasing tobacco excise taxes is still pending the President's signature, resulting in an estimated revenue loss of ~UAH 1.1 bn.

TAXES ON CORPORATE PROFITS AND IMPORTS GAIN SIGNIFICANCE

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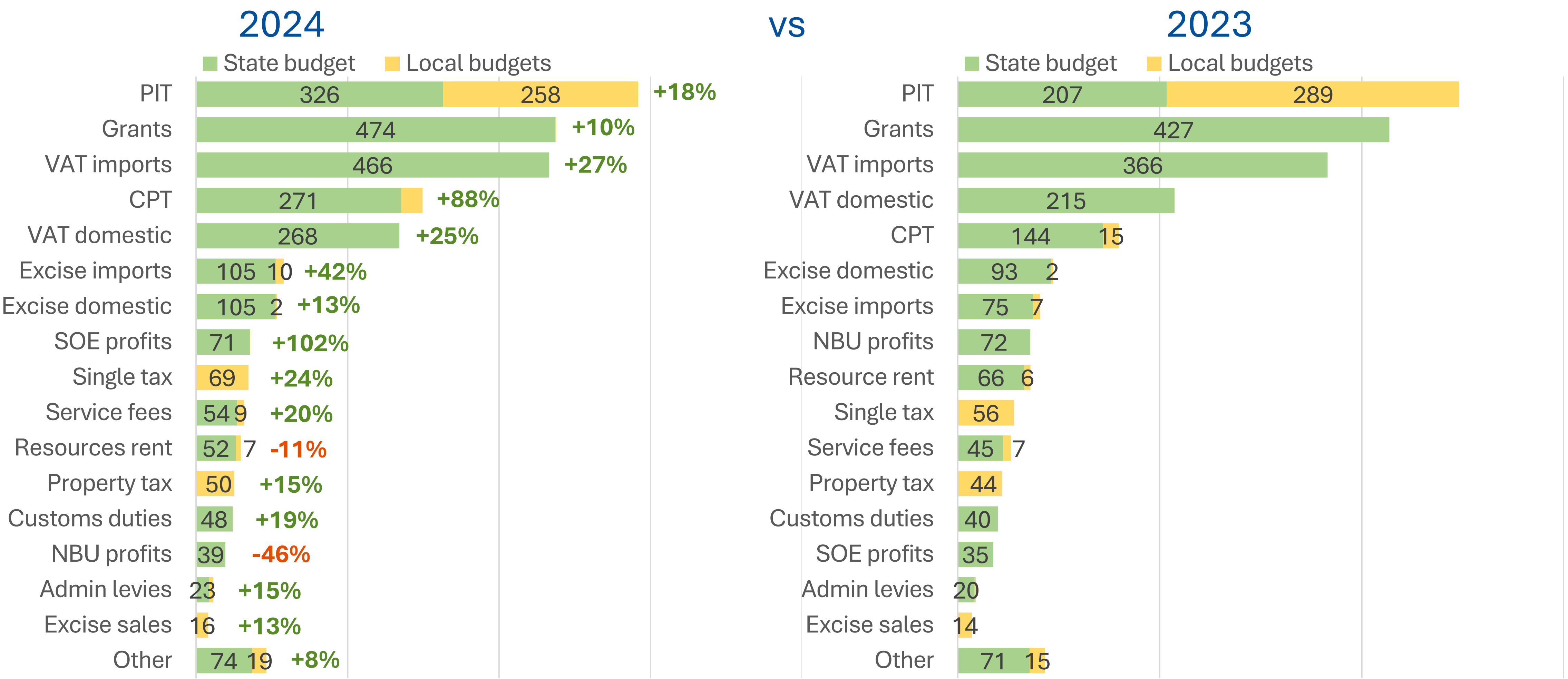
Consolidated budget revenues, UAH bn



Source: Ministry of Finance

STATE REVENUES COVER ONLY WAR COSTS

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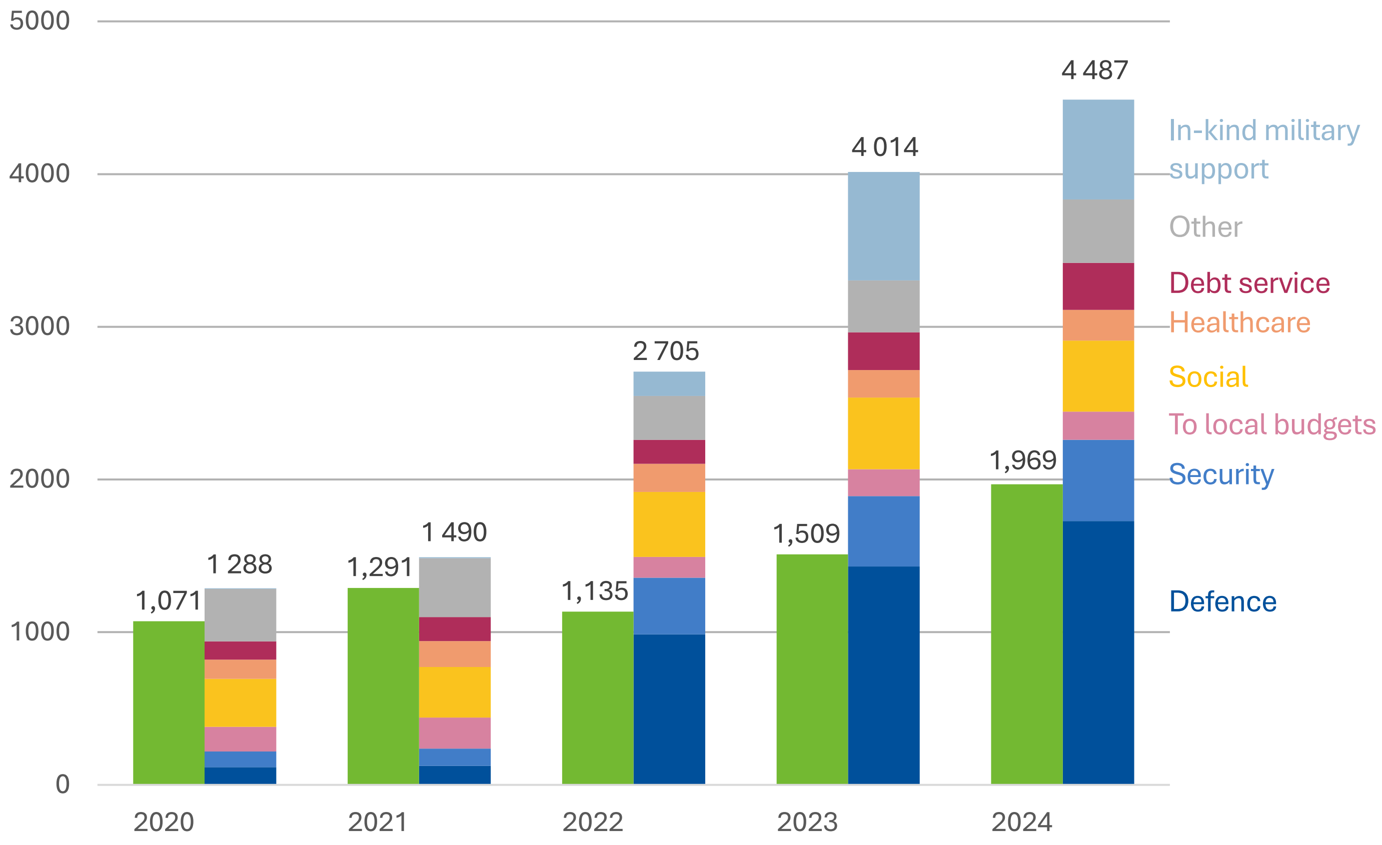
Defence and security expenses exceed 65% of the state spending

State budget expenses and **own revenues**, UAH bn



Total state budget expenditures in 2024 reached UAH 4.5 trillion, up 12% in nominal terms from 2023. However, after adjusting for end-year inflation, spending remained unchanged.

65% of total expenditures were allocated to the war effort: UAH 1.728 bn for defence, UAH 654 bn through in-kind military support, and UAH 532 bn for security.

Social expenses remained unchanged, while debt servicing rose by nearly 24%, reaching UAH 307 bn, or 7% of total state spending.

Source: Ministry of Finance

ERA FINANCING

ERA FINANCING IS A GAMECHANGER FOR 2025

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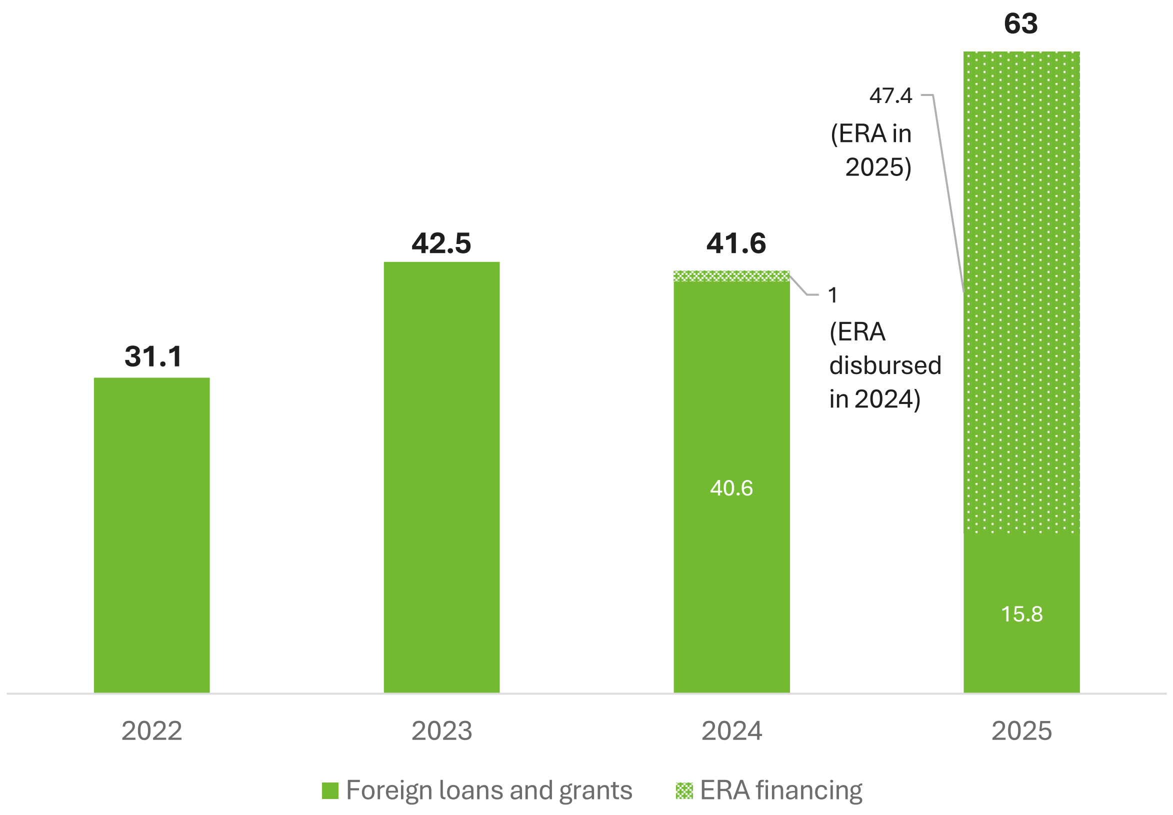
Ukraine will receive $50 bn backed by Russian frozen assets

Foreign loans and grants, and ERA financing to Ukraine, $ bn



In June 2024, G7 leaders agreed to provide Ukraine with a $50 bn loan. The loan will be provided to Ukraine through the ERA (Extraordinary Revenue Acceleration Loans for Ukraine) mechanism. The loan will be repaid from future revenues from frozen Russian assets.

Ukraine will not include the relevant financing in the amount of Ukraine's public debt. To obtain a loan under the ERA mechanism, on 3 December 2024 the Verkhovna Rada passed draft law No. 12232 to introduce into the Budget Code the concept of "contingent debt obligations".

Ukraine will be able to avoid repaying $50 bn to G7 if it does not receive war reparations from Russia.

Source: Ministry of Finance, CES calculations

FOREIGN FINANCING IN 2025 SURPASSES EXPECTED NEEDS

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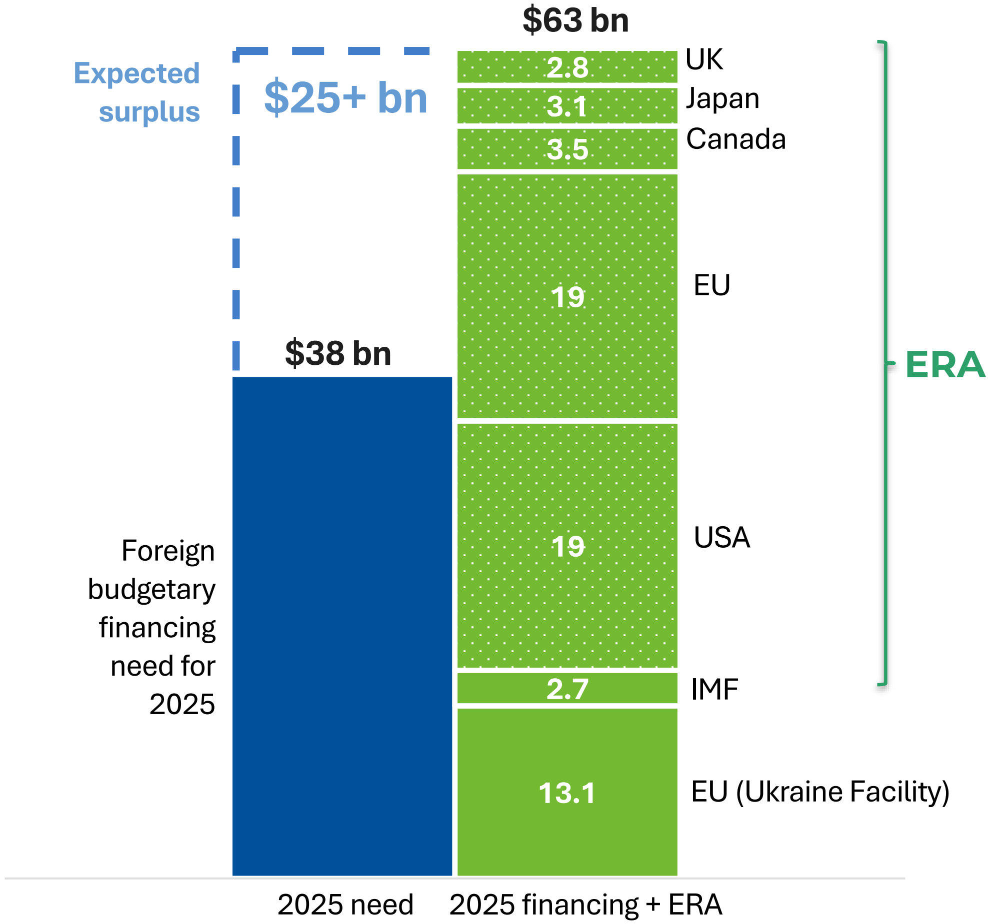
Can available resources be redirected to strengthen defense?



Source: Ministry of Finance, CES calculations

Ukraine is entering 2025 in a more stable budgetary position than in 2024. Foreign financing this year should fully cover the entire expected state budget requirement.

ERA funding will provide the lion's share of revenues. The money can be spent not only on "civilian" but also on military expenditures.

At the end of last year, the United States transferred $20 bn of ERA funding for Ukraine to the World Bank's accounts. These funds will be spent on public sector salaries and social support programmes; Ukraine has already received the first tranche of $1 bn.

The EU has already disbursed the first 3 bn to Ukraine from Russia's frozen assets. Further tranches will be disbursed evenly throughout the year.

The ERA funds must be used wisely, and a safety margin must be maintained for 2026-2027.

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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.